MARKET

FLUCTUATIONS

THE RATIONALE

OF

MARKET FLUCTUATIONS.

BY

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While the ultimate cause of such mischief is the liability of human nature to err, there are many important questions as to the particular occasions and direction of the errors to be considered. There is one factor to which experienced bankers and men of business attach importance, and which helps to account in part for a crop of great failures every ten or twelve years or so. This is the change of the business generation which occurs in about that period. Great businesses are not actively managed, as a rule, by the same people for long periods. People by the age of thirty or thirty-five get into responsible positions as the working partners of a large firm, or managers of the whole or of an important department of their business. But ten years later some have died, a few have changed their situations, others have, perhaps, made money, and have a natural desire to take things a little easier. Room is thus made for younger men, and practically, as we have said, there is so great an infusion of new blood that, at the end of ten years or so, much important business comes to be managed by men who have not had actual experience of the worst dangers of misuse of credit, and who have not themselves been tested as only actual and prolonged trial can test them. Other causes, we believe, co-operate in making a cycle in trade, but this constant change in the *personnel* by which business is carried on is of obvious importance. Traditions of business are no doubt handed down from generation to generation; but there is much that is intransmissible, while mere hearsay on many points, especially in using so delicate an instrument as credit, can never be so effective as experience. In this view a large crop of failures at a given period would simply mean that a new business generation is gathering in the harvest of its inexperience.—*The Statist.*

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PREFACE.

In my endeavour to preach not political economy, but business, I may in these pages have run into a style of literature tacitly considered as immoral even by those who practice the very system I desire to preach. In one word, this book may be taken as encouraging speculation by recognising it. If so, I must accept the consequences without attempting beforehand to defend speculation except on its own apparent merits. That it has merits all must allow; and the more readily will the value of speculation—its value to the nation as much as to the merchant—be admitted, if my readers will be so good as to separate in their own minds speculation from mere gambling. In the one case men conduct business with their eyes open; in the other they rush blindly into operations without considering the pros and cons. This book attempts to show broadly the considerations to which a man's *eyes should be open* when engaging in such operations, and it cannot therefore be accused of encouraging mere gambling. National morality must not consider itself attacked, and, indeed, there is a positive advantage in the display

to the public of causes and effects which are the basis of that commercial grandeur we now rejoice in.

As to the advantages produced by arraying market influences before the eyes of the public outside the respective markets under consideration, it is the business of a statesman to know what interests exist which he must respect—what circumstances affect the supply of food we consume, of luxuries we indulge in; and he must not wantonly interfere with profitable streams of trade, even though of no direct influence on internal consumption, for if he does so he will speedily hear an outcry from the traders or speculators whose market becomes affected. It is not enough to have studied political economy in order to appreciate the various influences bearing on our markets, for the best of governments cannot with impunity ride roughly over particular interests for "the greatest good of the "greatest number." And if statesmen must bear in mind particular interests, so must also their critics the public. Mr. Gladstone's Government fell, no one knew how, except for the explanation that its legislation had been harassing to the few whilst indisputably good for the many. Mr. Lowe, the very personification of a rough-riding statesman, was defeated by a few match-makers in a reckless attempt to disregard anything but reason and political economy; he, in short, interfered with their market. Mr. Lowe also lost much popularity on account of the derangement to the money market he

caused when he altered the system of collecting taxes so as to bring the bulk of the Treasury receipts into the Bank of England in one quarter of the year, so draining the market of its usual supply, disturbing the steady circulation of that blood of commerce, causing congestion, possibly inflammation and disfigurement, but certainly annoyance.

A codification of rules affecting money, produce, and labour-market fluctuations, would take commerce completely out of the region of art and place it among the exact sciences. Such codification is, however, impossible, and this work can only aim at a partially scientific form; rudimentary and incomplete, it may yet lay claim to simplicity of construction.

I have not written this book without a sense of the strong principle which it ought to convey. Let it only be allowed that markets are vital and paramount necessities to this great commercial nation, and my great hope is that there may be found here some proof that the very essence of a market is its freedom and publicity as to the bargains in it. May political economists teach this principle, and, above all, may legislators act upon it.

THE

RATIONALE OF MARKET FLUCTUATIONS.

CHAPTER I.

MARKETS GENERALLY, THEIR NATURE AND USE, CONSIDERED.

EVERYTHING we use has a value. Everything of value has a market. The water we drink has to be paid for and supplied, though it seems a spontaneous gift of Providence. There is, in fact, little beside the air we breathe which does not cost us something, and even the better qualities of air obtainable in one district are very often more costly than the tainted atmosphere which the poor have to put up with in another. Light had, some years ago, to be paid for in this country by means of a window tax, and there is at present so great an appreciation of the market value of light that a factory, warehouse, or office, well situated in that respect, is a thing to be paid for and prized at double the worth of a badly-lighted establishment. The most intangible abstract advantages possessed by one man over another can be brought to market and sold for a higher price; the subtle intellect of a writer in the *Times* is as superior in value to that of a printer's boy on the same premises as is a steam-engine compared with a wheel-barrow; the view from a house near the sea secures to the landlord of that house

an immeasurably higher rent than it would have been worth had it been less favoured in that manner. Instances need not be multiplied; let any reader review his own capital in the matter of brains, manners, appearance, as well as solid money, and then reflect on the market value of everything produced in this wonderful, wealthy world of ours.

But, of course, this one abstract market we talk of is not one to which all commodities can be brought; every different commodity has a distinct market of its own, and much can be said of the various organisations which custom and convenience have given to different markets. There are well-organised markets, and there are some quite the reverse of well organised, owing to restrictions on the power of buyers and sellers to come together. Free competition and plenty of it is the *sine quâ non* of a natural market; the buyer must be able to find several who offer him the same thing in order that he may select the best seller; the seller requires a number of competing buyers in order that he may obtain the best price. The height of good organisation is obtained when a seller can obtain the best price and the buyer the lowest price in the shortest possible time; and it therefore follows that a badly-organised market is one where the buyer and seller respectively cannot be promptly accommodated.

In beginning to specify the organisations of various markets, we must bring to notice some of their less tangible adjuncts which none the less play a most important part in the price of every commodity, without exception, which is bought or sold. Money; carriage; labour. These have all markets of their own, where competition governs the price of each; but the principal reason for their immense importance is that they

influence every form of goods which have to be paid for, and moved from place to place after production; and what form of goods does not undergo these processes? Of these markets we speak further on.

We must also remark on other general influences which act on market values, and distinguish them from those *tendencies* which political economy argues must eventually help to fix the price of commodities; and of these general influences the presence or absence of restrictions on market machinery most forcibly present themselves. When supply which exists cannot meet the demand which is apparent, then is market machinery out of gear; we know that, economically speaking, supply ought to meet demand, and none of us doubts that it will do so eventually; but, commercially speaking, supply which exists unfortunately does not always fully meet the demand which arises. As an illustration, take the relative value of labour in the various districts of one country. A farmer in Somersetshire ought not to pay his men less than does a farmer in Norfolk, provided the respective men are equally valuable; but a difference still exists in the wages paid in those two counties, notwithstanding the law of supply and demand which should equalise those wages, and that difference has in former years been much greater before the tendency of labour to seek a better market than Somersetshire raised the market value of the decreased supply of labour left there. Two Berkshire men, whose conversation the writer overheard on a metropolitan railway, having met by chance, exchanged opinions as to the "good" of staying in their native village instead of seeking a better labour market elsewhere. They had each come to London, it seemed, and both were glad of having done so.

"Nobody there now but very old and very young men," said one. Said the other, "No chance down there. "Plenty of hard work and the workhouse at the end of it." Their labour market had evidently been overstocked to such a point that the supply quite overwhelmed the demand for it, and yet it had taken years for the law of supply and demand to operate. Men had lived in that obscure village year after year with no thought of seeking better pay for their labour in free markets outside. The economical laws had at last acted, but before the effect became apparent the market value of labour in Berkshire long remained much below its equalised value account to such laws. So much for actualities as opposed to tendencies; for laws as opposed to facts, and more especially for what we wish just now to point out—the influence of restrictions on a free market. The Berks men had no restriction on their freedom except their own ignorance; they had not known of better wages being obtainable elsewhere, and had put up with what they could get until that restriction of ignorance had been removed.

The case of Chinese cheap labour presents another instance of restricted competition as interfering with a free market; this time an artificial restriction which keeps the Chinese labouring population within solid material walls shut out from a free market, and probably ignorant of any happier lot than huddling like bees in a plethoric hive. Nobody need be told that even in England, the country most free from commercial restriction, in America, the country most free from conventional restrictions, the labour market is a very disorganised one; the strikes, lock-outs, arbitrations, and other clumsy expedients for settling the price which employers can afford to give and workmen to take for

labour, are lamentable but clear proofs of this want of free competition. The restrictions so arising will assuredly be removed when competition becomes free; when the employer can select, the labourer accept, what each finds most advantageous. But there are still other restrictions we may briefly notice. First, the fashion to buy certain things at a certain place is so much an abnormal growth in markets that it shuts out equally good things, although the latter may be superior, cheaper, and more easily obtainable than those which are "run on" by the followers of fashion. Then, seasons have to be considered; there is always one part of the year when certain goods, whether produce or manufactures, are cheaper than at other periods; it is difficult to procure green peas before the spring, and the price rises, not only in proportion to the difficulty, but in consequence of the increased desire to obtain such delicacies at inordinately wrong periods of the year; scarcity, in fact, is not an element of supply-price alone; it actually increases the demand and the price out of all proportion to the scarcity of the article required. A change in the wind may cause markets to fluctuate violently; for instance, a cotton shipper charters a vessel which cannot leave owing to stress of weather; the cotton is delayed, the buyer cannot pay for it at the time, the consignment is forced on the market as a "future" in order to raise money, and the owner loses his profits, partly by the delay simply, and partly by the necessity for selling at any price. Fickle as the wind might markets well be called. The occult changes in their course would frighten a stranger, who would not be able to account for half the fluctuations happening around him; he would abandon calculation, as many a young and at first over-confident young merchant has

done, and become a mere gambler, watching results rather than causes. Hence the following facts and figures, especially those relating to the stock markets, should be of value to the general public, who rush into and out of speculations with blindness, if they indicate two things usually forgotten by *ingénu* speculators and investors. First, market fluctuations are never without some cause—generally an event which decides the sales or purchases of a flock of speculating sheep; and second, these fluctuations are exaggerated in all cases. The farther a stock falls the less an investor should be alarmed; if he be alarmed at all it should be by the *reason* of the fall, and not the fall itself, for the uttermost swing of the pendulum has probably been reached and a return swing is inevitable. And the same with a rise; the higher a stock rises the less ready should be a buyer to purchase on the strength of that rise alone; he should rather be ready to anticipate a reaction and fall after the inflation, and *then* buy if he thinks proper. But, on the other side, the following pages should teach another lesson, and that is, the market, especially a free and well-organised one, responds to an event almost instantaneously. Before a railway shareholder hears of a disastrous accident affecting his line the market has "discounted" it, has estimated the diminished value of the shares, and has adjusted the price to the lower level, and perhaps shot below it. An impetuous holder would sell in a rising market in nine cases out of ten, and wish afterwards he had been more philosophical. A very good proof of the frequency of this sort of mistake was furnished by an astute speculator who calculated every morning the chances for and against a rise in certain stocks; if the chances preponderated in favour of a rise, what did he do? He sold, and was

generally able to buy back again more cheaply, and *vice versâ*. It was not that his calculations were wrong, but that the events which favoured a rise or a fall had already been appreciated to the full by "the market," and he was generally in time to go with the reaction and make a profit.

CHAPTER II.

THE GENERAL INFLUENCES BEARING ON ALL MARKETS.

Capital increases Demand in some cases, Supply in others—Effects of Legislation variously apparent—How and when Legislative Measures chiefly affect Markets—Impeded efficiency of Capital affects Prices in a Trade—How War affects Markets—The amount of Capital in a Business is the main Regulator of Profits and Prices in it.

A MARKET, defined as a conflict of competitions—buyers on one side and sellers on the other—depends, first, on the amount of competing supply; second, on that of competing demand.

Supply, considered by itself, is always governed by the number and producing power of those engaged in production. In other words, the amount of capital employed in a trade has much to do with the price of the article produced. If there are ten manufacturers producing lace at ten shillings per yard, and another manufacturer comes in and competes, the price must fall, other things remaining equal. The increased capital represents eleven, while the former capital only represented ten, and the increased competing capital causes producers to put a lower price on the goods produced. Now, the quantity of capital brought into a trade is itself governed by many and various causes, the chief of which we will briefly go through. First, the supply of capital seeking employment must of necessity be regulated by the savings of the country at large; and nothing conduces so much to the accumulation of savings as a plentiful harvest. On April 10th,

1875, the *Economist* alluded to this subject, and the following extract will be worth making: "We may "safely say that there has been a clear gain to the "nation of over a million a month in consequence of "last year's good harvest; and the gain to the masses "of consumers, reckoning the saving in price of home "as well as foreign produce consumed, must be "reckoned at a larger sum. Possibly this saving has "also something to do with the steady increase in the "quantities of tea and sugar consumed, and any one "can see that it enables the masses to spend more on "other articles than necessaries, and neutralises a "considerable fall in wages."

Now, a good harvest is thus capable of saving more than £1,000,000 in comparative expenditure every month; the population are amply fed, but are yet enabled to come into the markets other than those for food all the more freely. This may seem at first a vague "tendency" of a politico-economical character, but the effects are so well known that nearly all trades feel a great impetus immediately on a good harvest being assured. "But this is exactly the opposite of what you "have been saying," the readers of these pages may be inclined to say: "you want to tell us that increased "capital reduces prices, and yet you go on to show good "harvests, though really an increase of the capital, do "nothing of the sort, but actually make markets active "and firm." And it is therefore necessary to point out that a good harvest is only increased capital in a certain form; it is not capital which can *immediately* increase the looms at work in Yorkshire, give the spindles of Manchester greater producing power, or force any greater supply on other than the particular market it originates in; it is an increased supply of food, and

nothing more, for the time. And it fully carries out the law, in that case, that increased capital in a market depresses such market. "But what about the opposite "effect which is experienced by other than food markets "whenever a good harvest occurs?" The answer trenches a little on the subject of demand rather than that of supply, which latter we are now specially considering, but we may as well notice in parenthesis that a good harvest in one sense causes a *diminution* in capital of another sort than mere food, and indeed a very important sort. Labour becomes less effective, for if men can get bread and live on 18s. a week they will not struggle to earn 20s.; and there you have one reason for a diminished supply of goods—the spindles lose activity, the looms are idler in idler hands, the spur to industry is deadened, the rate of production is lessened, in short, the goods brought forward for sale compete less and their price rises. Not only this, the very labourer who produces less can afford to buy more; his increased supply of, or cheaper, food enables him to buy more cotton, wool, and coal than before, while his decreased productive activity reduces the supply offering. Cotton and woollen goods are less rather than more plentiful on the market, and coal-stacks decrease visibly before the naked and alarmed eye of the mine-owner. What is to be done but to raise the price of these and such articles, and what is to prevent the masses buying them at the higher prices if they have money to spare? A good harvest means above all things money to spare, and capital therefore acts on the side of demand in the case of a good harvest. The upshot is that capital must be employed, must be kept to the supplying side, in a trade if it is to spur competition and depress prices in that trade or market; a good harvest adds at once to the producing

capital in the food trade, it adds to the competition among sellers of food, it depresses the food markets; and what it emphatically does *not* do—at any rate immediately—is to add to capital in other producing quarters. A political economist would say it was not so, would show that a "family on a desert island" would produce more clothing if it found itself less harassed by the necessity of producing more food. But the political economist would lose his money if he speculated in organised markets on such bases; his views would not be practical.

Besides that of a good harvest there is a phenomenon very much like it in its ultimate effects; its incipient effects can, however, be seldom gauged in the manner in which those of a good harvest are gauged. This phenomenon is the great and general rise of prices which will infallibly take place after a period of generally depressed prices. At the close of this book will be found a tabular statement of the great rise which actually did take place in 1872, a rise embracing not one but almost every article exported from this country. As we thus charged more to the foreigner for what cost us no more than before—no more labour, that is—we receive an extra profit of some millions, which, like a good harvest, represented increased capital. Here, then, we have also a great accession of buying power.

A general movement in market prices based on the prospects of real scarcity or plenty, although apparently having little reference to such solid reasons for a rise or fall, is very often the result of speculation. In the market for stocks, as we shall see farther on, prices will move upwards, not so much because there is a real demand as because speculators think there will be; the

latter bring capital into the market, buy up what they can, and so reduce the supply fictitiously. In the proper place this market influence must be considered in greater detail.

But in looking at the effect of variations in the Supply we began by assuming that other things are equal, *i.e.*, that Demand remains at a steady level, in which case a diminished capital power employed in producing a supply of goods must needs raise prices, and an increased production must, *vice versâ*, depress them. A small increase or a small decrease of supply on a market will have a disproportionately great effect on the price, and the market fluctuations are, so far from being ascertainable by any arithmetical process, based on a deficiency or increase in either case, and no law can be laid down as to the course of prices on such premisses, even if they could be stated with any exactitude or completeness. "When supply is overtaken by demand, "prices fly up out of all proportion to the deficiency," were the words used by Mr. A. Peel in reply to Sir W. Gallway on August 10th, 1872, when the high price of coal was engaging the attention of Parliament. And the President of the Coal Owners' Association further exemplified this by saying, "When labour is decreased "20 per cent., prices go up 60 per cent." A small reduction of supply therefore causes a serious rise in price. But now we wish to point out broadly and briefly the more general causes of variation in demand. (1) We may perhaps best begin to do so by reviewing the state of affairs in July, 1875, when heavy rains and floods in Europe had turned prospects of harvest from brightness into much gloom. In one week flour advanced from 40s. to 47s. at Mark Lane, Consols fell ¼ per cent. in the middle of a strong advance which

seemed likely to take their price up to par, and there was "something very like consternation" in every trade which depended on a good purchasing power on the part of the masses for continued prosperity, and there are few trades which do not. In all our markets the harvest was discussed, and many were the shades of hope and fear as to the damage done, its extent, its permanency, the likelihood of a recovery, the probability of returning fine weather. Wheat was then in course of blooming, and the time was critical. It was then that the good effects of a previous abundant harvest were appreciated. In spite of the general reaction following the inflated markets of past years, the abundance of cheap food resulting from that harvest had given a steadiness to our home trade, which was plain from the evidence of the large traffic returns on the railways and their increased dividends. And then the favourable state of the foreign exchanges was also largely due to the same cause; we were less indebted for imports of foreign food as a consequence of plenty here, while the easy money market produced by the favourable exchanges was considered at least as one incentive to new commercial activity. But with a change in our prospects of another good crop few trades could be relied on to continue so steady, and the dulness of export business was likely therefore to be more felt in the absence of sustaining power at home. Such were the gloomy views as to general activity in our markets, and such the too well-known effects to be anticipated of a poor harvest in checking the buying power—the demand, that is, of the whole nation. As to the grain trade, all was bustle and buoyancy; speculators were buying up cargoes of wheat in view of higher prices later on, and the holders of stocks in granary

were unwilling to reduce them. The heavy and continued fall in the price of wheat since the last harvest had, however, prepared the way for a sudden check; not only were stocks smaller, but they were reported to be in "strong" hands,—hands quite likely to close over them tightly on any symptom of a revived demand. Capitalists had, it seemed, found it advisable to employ their money in the purchase of wheat at the previously low prices, and were in no hurry to get rid of it in a rising market. Thus a semi-artificial strength was given to the market for wheat, and helped to cause the consternation alluded to as thence arising in commercial circles. (2) Markets occasionally exhibit lengthened periods of buoyancy followed by depression, in which the only fluctuation is the length of the steps by which higher or lower prices are reached. At the close of this volume we have the figures which can best show these steps upwards in periods of inflation and downwards in periods of reaction. We have already alluded to the violent way in which prices fly up in the case of a small deficiency of supply; but when that supply is found to have fully overtaken the demand there is a tendency to depress prices just as disproportionately. The only question is, how rapidly will the fall take place? In the case of iron, after the great inflation of 1872–3, the markets were very sensitive to a possible rapid collapse; buyers were timorous, and the falls of price were continuous, but jerky. It was reported after the first quarter-day in 1875, and the report might suffice for many adjacent quarter-days, that "Iron has been declared cheap "enough for the present. The old rates are to be "maintained, and withal, it is to be feared, the old "state of things. This result of the recent meetings, "singular as it may appear, is nevertheless the only

"one the masters could have arrived at without making "bad worse. A small allowance, to the extent of the "slender diminution of cost, would undoubtedly have "been mistaken for the first step backwards, and en-"couraged buyers to wait for the second. Underselling "has again been hard at work in our district, but still "with no greater success than had formerly attended "its efforts." In such times there is a shrinking sensitiveness among buyers which no advances from the side of the seller can overcome; indeed, it appears that a positive attitude on the part of the latter would be more politic. Not only a large supply, but the slightest appearance of it suffices to frighten Demand out of the market.

As to what Acts of Parliament can do to affect prices it may be well to give a few instances of market fluctuation in consequence of legislation. At the beginning of 1875 the cost of getting coal was considerably increased by the Mines' Regulation Act, and the increase was estimated by competent authorities as equal to about 2s. per ton. It is absolutely impossible to say to what extent the market price of coal was influenced by this increased cost—whether this 2s. was the exact measure of the greater scarcity in the market, or whether the scarcity enabled the coal-owners to put on a greater compensating sum, and so for a time made the public share their loss. The said regulation of children's labour in the mine came at a time when coal was becoming more abundant all over the country owing to the development of new collieries and a diminishing demand on the part of the iron trade, so that the effect on the market value of coal of diminished labour power was, so to speak, hidden and swamped by the paramount tide of trade reaction which had then set in, which was

sweeping irresistibly downwards the price of all articles previously inflated, but it was certain that the measure tended to raise prices, because it checked their fall, in the coal market.

A more curious than edifying instance of the effect of legislation has been afforded by metropolitan water companies. To all intents and purposes these are monopolies, and the Government was originally called on to regulate the cost of water supplied by them, in order, on the one side, to give them a fair profit, and also, on the other, to protect the consumers of water in London from possible over-charge. Legislation was accordingly adopted, and the effect has been a gradual rise in the market value of water, and a steady rise also in the value of London water companies' shares. This was how it came about. The charge of the water companies is based on a peculiar principle. Instead of estimating the water actually supplied to a district, and then distributing the cost among the ratepayers, they charge an authorised percentage on every householder, and appropriate whatever this percentage may bring in, without reference to the value of the water supplied. Consequently, an increased rate augments their receipts without regard to their expenditure or the value of their services. Now rateable value tends in practice to rise steadily over the greater part of the metropolis, and in some quarters, in the districts of certain water companies, it has risen very largely and rapidly. Thus the market price of water rises almost irrespective of demand and supply, and depends on the rent of the house to which it is supplied, just as if it was not a separate commodity, but part and parcel of the house in question. It is hardly necessary to point out the absurdity of the original legislation, nor, indeed, does it

much concern us here, but it will be as well to assume that the rateable value of houses in a particular district had, instead of rising, fallen, and fallen to so low a pitch that the payment would not have paid the water company to supply the district with water. The company would in such a case be obliged to stop operations; it would be bankrupt by Act of Parliament.

Protective legislation is very often the source of market fluctuations, most violent in character and lasting some time before the state of demand and supply grows accustomed to the new restrictions. A duty is put upon the import of, say, our worsted goods in France. If notice is given of such imposition, the first effect is to increase the market price of such goods, for French buyers naturally wish to obtain all they can before the duty comes into operation; the next effect is to cause violent depression in the value of the particular worsted goods which are no longer in demand when the duty does come into operation, for not only is the French market well stocked in consequence of the previous precautionary buying, but the dismay caused by the fear of a great check on future demand is nearly certain to exceed the limits of reason in such cases, and a crowd of articles are forced for sale in the fear of even a worse price only being obtainable in the future; then comes another reaction, and so the pendulum swings backwards and forwards until prices again reflect in steadiness the equilibrium of supply and demand. Amongst recent instances of such movements have been the imposition of a string of duties in France on imported goods, a similar legislation with regard to textile manufactures imported into the United States, and a rather striking and illustrative dispute which took a deputation of Bradford manufacturers to Vienna in

order to protest against a sudden alteration of tariff on certain woollen goods. It appeared that the Customs authorities at Prague had suddenly commenced making a prohibitive charge of thirty-five florins on goods which had previously been allowed to pass without a higher tax than fifteen florins, and as this was equal to an increase of duty from 6d. to 1s. 2d. per yard, the particular English merchants exporting such goods found their market utterly spoilt as far as Austria was concerned. The Prague authorities asserted that the goods in question, having cotton warps in them, could not be "fulled" goods, and were therefore liable to the higher duty charged on the class called "unfulled." Whatever the pretext was, and whatever the result, it was the suddenness of this change which bore so heavily on the makers of the goods in question. Without premonition, they found themselves cut short in a profitable business, stocks accumulating on their hands, and a prospect of further loss if they did not immediately stop the production. Where due notice is given of a prohibition, the market for the article concerned is much more gradually affected, although a spasm is not unlikely to occur at first; and an adjustment of supply is less ruinous to the supplier, who, by reducing his production, keeps up prices at about their former level. The time at which fluctuations occur is at the inaugurations of the changes; it is then that prices and profits are affected.

Legislation will thus affect free competition, and therefore injure the freedom necessary to a healthy market, but when legislation interferes directly to create a monopoly in addition to protecting native industry, the mischief is anything but trivial or temporary. Perhaps we cannot better illustrate this than

by noticing the effect of such monopolies of trade in Egypt, as shown by Messrs. R. J. Moss and Co.'s circular, dated July, 1875, concerning the state of the Egyptian market.

Grain exporters are much hampered by the action of the Daira as to deliveries. The course taken interferes with the arrival of cereals from the interior, where large purchases have stored. The usual regular and direct supply at Minet el Bassal is consequently almost entirely cut off, and the trade is dependent on the caprice or necessity of the Daira to place the produce on the market, or to withhold it. At the same time, rumours are current that the fellahs are not meeting their "senads." New taxes of every conceivable description are absorbing their ready cash; so that not only are sales of coals not possible, but payment of senads for lots previously sold cannot be obtained.

Happily in this country there are no monopolies to disturb prices at the caprice of a government official, nor are taxes so embarrassing as to interfere with the free movement of commodities as required by the natural play of demand. We cannot, however, quit this notice of the effect of legislation without referring to the Licence Duties which figure, and no doubt very properly figure, in each year's Budget. A singular but reasonable objection has been made against the mode of levying licence duties paid by brewers, viz., that the amount levied is called up in advance, thus *increasing the capital* necessary for carrying on a brewer's business, and therefore *reducing the competition*. This objection Sir Stafford Northcote promised to remove by allowing, as was understood, a longer credit for the payment of the duties. This will make it plain that the capital in a trade has paramount effect on the supply in that trade, and more especially that impediments, political

or otherwise, to the efficiency of that capital regulate to a large extent the market price.

But, unhappily, the caprice of a government may disturb markets to an almost unlimited extent in one terrible way, viz., by a declaration of war; and when wars are recklessly, suddenly, and unnecessarily entered into, the shock is all the more sudden, the confusion all the more lamentable. In the following pages are records of market fluctuations of ruinous extent, of dear money, of wildly depressed stocks, of fluctuating value in nearly all produce markets. Peace and prosperity at home and open ports abroad are no longer to be relied on by the merchant who has already bought his season's supply of raw material; the manufacturer finds his prospective market disorganised or utterly annihilated; each has no better resource than to sell at once, to lose as little as possible, and give up all idea of a profit. Even supposing that he wished to hold on in hopes of better times, the disturbance of the money market caused by a great war would almost compel him to realise, and it is through the money market that the action of war and warlike rumours becomes chiefly apparent. A sudden declaration of war will produce a wild panic, the end or direction of which it is impossible completely to trace, much less to foresee; but the chief origin of the disturbance in other markets is that caused by the sudden disappearance of money from the usual centres; to a certain extent it migrates, and it also vanishes in a phenomenal manner which we will more specially consider in another place. As to the effect of war rumours on the cost of borrowed money, it may be well to instance here the effect of apprehensions, which arose in the spring of 1875, as to what was contemplated in Berlin with regard to a new war with France. In

the columns of the *Daily News* the following appeared, showing at once the depressing effect of such alarms on trade generally, and the comparatively secure position of England so far as any scarcity of money was to be dreaded as a result of them here. Money, it seems, seeks London for safety when a war breaks out on the Continent, and money is not dear here on such occasions, however scarce it may become in Continental markets. The menaces of the Berlin press in the spring of 1875 were thus alluded to :—

"The recent agitation has proved the existence of "great underlying disquiet, and there is no guarantee "against Berlin's breaking out again in the same mys- "terious and sudden manner. Prudent business men "feel themselves compelled permanently to 'take in sail,' "in spite of all the efforts of sovereigns and cabinets to "scatter peaceful assurances broadcast. People in "business who wish to be safe cannot afford to calculate "that there will be no explosion when they see Europe "filled with explosive materials, and every now and "again the match to all appearance is about to be "applied. The consequence cannot fail to be the "establishment of a new and formidable check to the "revival of trade which Europe now desires so much "after the depression of the last two years. The losses "inflicted upon Europe by its state of armed truce, and "which seemed for a time to be at an end after the "explosion of 1870 and the peace of the following year, "must again be suffered. The situation is most lamen- "table, but we are only recording here the actual feeling "which exists in the mercantile world. The check to "industry which this disquiet occasions will be mitigated "here by the efflux of capital from the Continent to "England for safe employment or custody, attended by

"the simultaneous migration to England of some of "the owners of the capital and the workmen whom "they employ."

Here we must come back to our original dogma, that the main regulator of prices in a trade is the amount of capital in it. The demand for an article remaining the same, an increased capital employed in producing it reduces its price by means of the competition. Wars, famines, and cramping legislation have been instanced as reducing the capital employed in trades, these being some of the influences which affect, not one branch alone, but all of the productive industries; their influence is, indeed, various in various markets, sometimes reducing the supply of, but more often the demand for, marketable commodities. The effect of wars and such mischievous occurrences on prices is perhaps best shown by taking the converse of that uncomfortable proposition, and looking at the prospective effect of peace and prosperity on markets and prices. On this subject we have been told that the placing of capital at interest has rarely in any old community, where large accumulations of capital take place, been possible for lengthened periods at the rates which have been obtained on the average for the last twenty years. During that time the investment of capital reproductively, in consequence of the increase of machinery, the extension of railways, and the development of scientific inventions, has been on an enormous scale, and has accustomed the holders of capital to expect large secured returns. But in former periods it was often found that there was a tendency in capital to outgrow the means of using it reproductively, and perhaps after the first period of rapid development following the establishment and growth of the railway systems of the world, the old difficulty of employing *new*

savings reproductively may be recurring, with the result that there will be a *steady fall in the profits of capital.* Thus, increased capital in a trade means reduced profits, and reduced profits lower prices, the rule applying to momentary market values as well as to ultimate cheapness or the reverse.

CHAPTER III.

ORGANISED MARKETS.

The Advantages and Disadvantages of Organisation—Facility of Contract keeps Price steady in a highly-organised Market—Speculative Opinion sometimes Wrong, but Reliable and Useful on the whole—Internal better than Parliamentary Organisation of Markets—But Internal Organisation may be in the Interest exclusively of the Members of a Market, and regardless of the Public—Organisation and counter-Organisation against Systems of Fraud necessary in order to secure a Free Market—Interest on Deposits fixed by a Combination of London Banks.

Constant dealings in a particular article bring the market for it into a state of such high organisation that facilities for buying and selling become of themselves enlarged. There is this great advantage in organisation, that the true market price can be immediately obtained for an article sold, and the cost of it can be as immediately ascertained by an intending purchaser; but on the other side there are some counterbalancing disadvantages in this facility of dealing, most of which are, like other hindrances to healthy trade, of artificial creation. A body of men, all seeking their own profit, must be subject to some sort of rules; and these rules, though assisting organisation, are sometimes productive of peculiar speculations and combinations, sometimes again of an impeded freedom of contract. Rules are apt to form a circle, a crust around the privileged body, which allows of occasional wild flights in market price before the influence of demand and supply can break through and restore equilibrium.

The most highly-organised market in the world is the London Stock Exchange; after it, in England, come the

Liverpool Cotton Market, those of pig iron in Glasgow and Middlesboro', wool at Bradford, coffee at Mincing Lane, and so on, the article which is least susceptible of intrinsic variation in value being best adapted for general dealings. A great deal of speculation by outsiders takes place in cotton, which has obtained an organised market more because of the large trade in it than because of its adaptability for classification; had there been only a small real trade in cotton, the difficulty of classifying the various grades would have deterred any but experts from dealing in it. As it is, a capitalist can buy middling Uplands cotton as easily as he can Consols, or sell a "bear" of Bengal, whether he has ever seen any of that description or not, with as little trouble as he can speculate for a fall in Bank stock. I have left out the Lombard Street money market from this list of organised markets because its organisation is natural as regards the members of it, there being no clique with peculiar privileges, no body of men to confer them and regulate them, and no visible sign of organisation anywhere.

Taking the Stock Exchange as the pattern of high organisation, it will be easy to point out the advantages and disadvantages which a market of the kind exhibits. It is too often forgotten that the eager speculation in securities makes it worth the while of the keenest business men in the world to obtain good information on the value of what they traffic in; and so a bad thing falls, a good one rises in market value, a paying speculation is immediately advertised to those who will imitate it, a worthless concern is publicly exposed by a mere figure on a list. There have been scandals on the Stock Exchange, frauds perpetrated under shadow of its own rules, fictitious prices on its list of unexceptionable

securities, and a great outcry whenever such knavish fabrications have crumbled. But scandals as bad and much worse have occurred in other markets where the mode of procedure has been less intelligible to the public, and the rascality and credulity less apparent, but as deplorable. The great benefit of the Stock Exchange is forgotten because it is quietly and daily of use; its demerits come out only now and then, and the high organisation, the distinct rules of procedure in it, make stock markets susceptible of the very scrutiny which occasionally, and rightly enough, shocks the public sense of morality. The best defence of the Stock Exchange, which was made at the time of the foreign loan scandals, showed that, besides the mode just pointed out, in two other ways its agency is of advantage to the public. First, it steadies fluctuations by means of the capital floating about, which is held for no other purpose than to buy up securities for which there might otherwise be no buyers just at the right moment. As illustrating this it has been pointed out that certain capitalists find it profitable to invest their money in what may be called a business of transfer; "these intermediaries are able "to buy when there would be no buyers without them "and to sell in advance of the public, with the result that "all concerned as holders or possible purchasers find a "facile market for such commodities such as is quite "without a parallel in other things. One has only to "contrast the difference between realising an estate in "lands or houses, and realising a property in Consols, to "see that the existence of a market like the Stock Ex-"change enables that to be done in a few hours which "might otherwise take weeks and months, unless done at "a great sacrifice. There are certainly few other markets "to which the owners of a few millions' worth of property

"could come with the certainty that in a short interval "they could make positive contracts to dispose of the "whole without causing a great disturbance of price, and "in a farther short interval could receive the value of "what they sold. All this is the result of the Stock "Exchange organisation, which, of course, is the more "effective where there is most room for large dealings "and the securities are of a kind to be widely known "and appreciated." And, second, the securities which are thus made so steady in value can be used in a most useful way in making payments, in giving guarantees, in moving capital from one quarter to another. Many stocks being universally known, they form an unequalled means of remittance when bills of exchange are unobtainable or unsuitable for such a purpose; for instance, to transfer to Berlin or Paris in payment of a debt a security instantly saleable in those capitals at about a certain price obviously answers the same purpose as transmitting a bill of exchange which happens to be coming due there. "The existence of a mass "of Stock Exchange securities which are the object of "extended dealings among capitalists in every great city "thus constitutes a new sort of money available for "international use, facilitating all kinds of transactions "between different countries, and economising a vast "quantity of unproductive metal, for holding which the "banking and trading community would otherwise "have to pay."

But then, on the other hand, the very organisation which does so much good itself induces too much confidence in the market price of securities quoted on the Stock Exchange. It is found that this advantage has a demoralising effect on the public. They get accustomed to invest in securities not so much on their

own merits as in reliance on what seems the market opinion, and because little harm comes in nine cases out of ten, or ninety-nine cases out of a hundred, they are totally unprepared for a mistake in the tenth or the hundredth case.

That market opinion cannot be always right it is of course unnecessary to insist upon, but it is the best guide to a just estimate of value that we can have. Market jobbers may be called hard names, but they are of use in weighing the pros and cons of a question of value; they merely fill their niche in the division of labour, helping the public to a just estimate of these pros and cons, and so saving time and trouble. When circumstances are expected to arise which do not arise, then market opinion is wrong; a spasmodic fall in prices is seen as the result of the non-occurrence of an event, but it need not be concluded immediately that there was over-speculation, and that the market had become unreliable. On the contrary, the prompt way in which prices right themselves in naturally organised markets is a proof of its general reliability, whatever it may fail in as an index to value on special occasions. At the end of 1874 railway stocks were out of public favour; there were gloomy anticipations of bad trade within the country, of falling wages, of consequently reduced traffic, both as to goods and passengers; then there was an ominous armed peace on the Continent, and a reaction in trade there as well as in America; our exports were falling off, and both within and outside the country there was a time of commercial reaction. During all this time the cost of working our railways was high. Circumstances seemed unfavourable to large dividends on railway stocks, and the public did not buy them. But certain speculative capitalists, acquainted

with the inner working of the Stock Exchange, did buy them under a correct impression that a demand would ultimately arise for railway securities, when they would be able to get rid at a high price of what they had bought at a low price and realise a very handsome profit. The event was a certain justification of such views, but had anything unforeseen occurred to upset them, these "operators for the rise" would have been ruined, and the market opinion which their careful judgment had stamped upon the price of railway stocks would have turned out to be a wrong one. This serves as a good instance, too, of the business of transfer already mentioned, and is of value as showing the public utility of an organised market for public securities. Money had been diverted to the Stock Exchange—whether borrowed by speculators or invested for a time by capitalists it is to little purpose to inquire—for the purpose of buying up the railway stock that the public wished to sell, and this fund of money so diverted prevented a heavy fall which would assuredly have taken place had it not been there to keep up the price of stock brought to market. Instead of being overloaded with stock, the market was relieved of any pressure of the kind, and prices kept up well notwithstanding the persistent sales of timid holders. The operation turned out to be one of the boldest and most successful that had been attempted for a long time. In spite of many unfavourable circumstances, and in opposition to the general current of opinion, immense amounts of stock had been purchased and taken up while speculators were selling, and, when the current turned, the stock was sold, and at a large profit, on the average. The value of the speculation to the public will be recognised, inasmuch as it sustained prices when sinking and

supplied the market with stock when a return of demand occurred.

There is one section of the Stock Exchange where perfect freedom of contract has been impeded by legislative enactment. For evil, as events have shown, but for good as the Parliamentary wisdom of the time thought, Leeman's Act has made it illegal to traffic in the shares of joint-stock banks fictitiously, or so to say on credit. If a dealer contracts to deliver certain bank shares, he must find them to deliver; he must not sell them without having them in his possession; he must not pay money to defer delivery of them, or his contract will be void. And thus an anticipatory or market opinion of the value of banking shares is not so finely arrived at; the buyer has to wait till somebody wants to sell; the seller has to wait till he gets the shares into his possession, however much his mind may itch to sell and forestall a fall which he has reason to expect. That is to say, such are the legal restrictions, and such would be their effect if completely carried out; but a witness told the Committee on Foreign Loans that Mr. Leeman's Act was never regarded, and that if any member of the Stock Exchange were to plead that Act in bar of the completion of any bargain, he would be put out. Here is a case of market organisations rising superior to the law. It would probably be difficult to find where the public were the worse for it.

That Stock Exchange organisation throws open the door to a mischievous class of ignorant speculators cannot be denied. The Foreign Loans Committee made public the facts connected with the issue of an inferior loan. A clique, or so-called syndicate, undertake within a given time to sell the securities issued for a percentage on the total sum asked for. The syndicate make a

market for the loan—that is to say, they begin to buy as much of it as they can get. Some foolish speculators, seeing the quotations of the stock, buy with a view of selling at a profit before they settled for their purchases. In that way the public are brought in That they are brought in by anybody's folly but their own can hardly be said with truth, but that the high organisation of the Stock Exchange helps to facilitate such swindling cannot be denied. One fault of the system of issuing a loan just briefly described is that it gives Stock Exchange speculators — of the ignorant class, be it understood—an interest in getting rid of the rubbish which they have bought for "market reasons." Such speculators see their way, as has been said, to buy in view of a profit, while the syndicate had an interest in keeping the price up, and so long as they secure their own profit they do not care who takes the stock off their hands. Of course this is disreputable; they sell a security at its momentary value, and, as the suggestive phrase goes, "stick" the investor with it who buys for what it may be permanently worth. A shrewd writer, signing himself "Reform" in a letter to the *Daily News*, pointed out that "the system of advertising bonds "for a week, making a market for them during that "time, and then obtaining a quotation from the Stock "Exchange upon a colourable declaration that there "have been *bonâ-fide* applications for them, is most "costly to investors, of no advantage to issuers, and *only* "*benefits the Stock Exchange*. This private corporation "has acquired so much power that it is enabled to prevent "any alteration in the mode of issuing bonds which would "allow the issuer and the investor to come together, as "in America, without its intervention, and without pay-"ing a species of black mail to its members. Mr. Cohen

"says that the Stock Exchange has an express rule "against dealings before quotation, but, as this is evaded, "he thinks that it would be impossible to prevent them. "As a member of the Committee recently pointed out, "the Stock Exchange has a rule against clerks of brokers "dealing on their own account, which is not evaded. "This is because in the one instance a *penalty* is attached "to the infringement of the rule, and then, in another "instance, there is *no penalty*. The members of the "ruling body of the Stock Exchange, indeed, themselves "admittedly deal in bonds, scrip, and shares, before allot-"ment. It is idle to suppose that the Stock Exchange "will itself voluntarily abrogate a habit which is the "very corner stone of a system laboriously built up by "a powerful combination of trades to ensure to it profits "upon every new issue of bonds or shares, but it is "equally idle for representatives of a private corporation "to assert that legislation on the subject is useless "because its members will disobey the law." Unfortunately, these remarks are just, and point out the defect of organisation on markets where the rules are drawn up by men having only their own interest as a body to serve. The best outcome of the Foreign Loans investigation has been that the public have been put on their guard. But that protective legislation can do any direct public service no one can really hope.

When organised fraud attacks the very roots of a trade, when the existence of a market is threatened with extinction, when men of any honour or position are driven from it, and when values become a fiction and a mere name, then is defensive organisation a necessity. In cotton, in jute, in sugar, and a multitude of other articles whose intrinsic value is subject to deterioration, fraudulent modes of adulteration and deception have

reached great heights; to such an extent have frauds in the preparation of spurious bales of cotton, for instance, risen that a Bombay Cotton Frauds Act was passed in 1863 in order to check the system, and Manchester has of late complained loudly that the adulteration in American cotton has been "unexampled in the annals "of commerce." In order to counteract these organised frauds, some measures of an equally systematic kind have to be taken by those most interested in the continued existence of the market whose very roots may be sapped; it is useless to entrust these counter-organisations to uninterested parties—to legislative assemblies, for instance—for their regulations will probably be unpractical, and will certainly be evaded. The best kind of organisation is that which gives most freedom to a market. The Manchester Chamber of Commerce had a report submitted to them in November, 1873, by the directors, on the subject of frauds in the Indian cotton trade in which this paragraph appeared:

> The testimony they have collected from the consumers is singularly unanimous in favour of maintaining all those legal checks against fraud which are now in operation, and confirmatory of the beneficial results which have flowed from the administration of the Cotton Frauds Act of 1863.

But the Chamber did *not* adopt the report in which that paragraph appeared, for the report assumed that legislative enactions had been chiefly efficacious in stopping the frauds. Instead, they adopted the following resolution:

> That, from information received, the directors believe that the condition of the cotton imported from Bombay has during late years materially improved; but they also believe that this may in some measure *be attributed to the natural operations of*

trade, and the facilities now afforded to European merchants for dealing in the interior of India.

That the directors are not at present prepared to recommend the absolute repeal of the Cotton Frauds Act, 1863, preferring that the Bombay Government should institute such modifications therein as the circumstances within their immediate knowledge may appear to suggest.

This is first-class evidence of the salutary effects of natural trade in overcoming the drawbacks to it which an organised system of fraud might form. The Chamber had the wisdom to see this and to put the advantages of an unimpeded market before the legislative detail which merely counteracted the insidious attacks of fraud, coming from a particular quarter, which were bad because they destroyed *bonâ-fide* competition.

As to the checks against fraud in the American cotton consigned hither, experience has made rules necessary both to protect Liverpool consignees and to check the roguery which threatened to cause some markets in the United States to be "sent to Coventry," and ruined by distrust on the part of those who occasionally lost by dealings in such markets. At the risk of going too much into detail I must illustrate this with the following regulation made by a board established solely in the interest of New York shippers at Liverpool:

The board will investigate all claims made on this side for falsely packed or fraudulently shipped bales, and when such claims can be substantiated, will issue a document which will enable the merchant here to recover from the shipper or planter.

And the following throws light on the kind of fraud to be guarded against, and emanating as it does from the American National Cotton Exchange Convention, shows

the forces at work which impel sellers as well as buyers to systematise measures for protecting the latter:

> The committee upon the definition of "false and fraudulently "packed" cotton and "mixed" cotton reported a definition of false and fradulently packed cotton as such bales as may contain any foreign substance, water-packed bales, or bales containing damaged cotton in the interior of the bale, and such bales as are plated, or composed of good cotton upon the exterior and decidedly inferior cotton in the interior, in a manner not to be detected without opening the bales. This definition was unanimously adopted as official. It was moreover resolved that reclamation on such cotton, to be valid, must be made within 100 days after its arrival, and be presented to the seller at the point of shipment within thirty days thereafter. The committee proposed to define mixed packed cottons to be such bales as contain more than one quarter of inferior cotton, the lower quality being so situated in the bale that no design of false or fraudulent packing appears. The difference, however, in qualities must equal at least half a grade in bales sold as below low middling. This was also adopted and made official.

Raw cotton is not the only article subject to adulteration and fraud in systematic ways ruinous to a market. The cotton goods trade has been stigmatised as fast becoming a national disgrace. Previous to the American war sizing was, with very few exceptions, confined to its perfectly legitimate purpose of assisting the yarn to weave. During the war, when cotton rose to such a very high price, numbers of manufacturers, with more ingenuity than honesty, devised various schemes of making up for the small quantity of raw material in their cloth by the introduction of China clay, and a variety of other compounds. Hence the need of defensive measures for the protection of the public and of the more honest producers, and hence the confidence with which certain "makes" are bought in the market. In the jute

trade, too, it has been found necessary to form an association in London similar to the Cotton Association, for the purpose of regulating the standard quality of jute, the contracts under which it may be bought and sold, and for otherwise lessening the abuses which have grown with the growing trade.

But there are markets where organisation is almost impossible, although it is sadly wanted. In the universal competition for business, dealers always have many incentives to keep apart, although they are, as we have seen, sometimes compelled to combine, organise their market, and make rules for their own protection as a body. The money market is a conspicuous instance of the way in which the members of it keep apart, so far as free inter-communication is concerned. The lenders of money in Lombard Street are all within a stone's throw of one another, but the Channel might run between, instead of a dark, narrow, little street, for all the interchange of information or assistance that goes on; indeed, it is their business, or they conceive it to be so, to have as little to do with one another as possible. In times of good credit and trade each lender does all the snug business he can, without letting his neighbour know where he lends his money; in times of panic and distrust, neither will fortify his neighbour with ready money or help him with information; on the contrary, each would sift out all the bills from his case which he had reason to suspect, and would be glad rather than not if some one else took the liability without knowing how serious it might prove to be. This is free competition untempered by restraints which might be organised in the interest of the whole market. Instead of it being to the interest of bill discounters and lenders on security to keep apart and mutually

suspicious, it has turned out to be quite the reverse. Some banks lost nearly all, and sometimes more than all their profits for the first six months of 1875, when the Collie scandals came to light and the rotten firms failed. What they failed in, as is well known, was the power to keep afloat a mass of fictitious bills representing value which did not exist. The main facts were that the firm of A. & W. Collie arranged with—hired would perhaps be the better word—certain firms in order to draw upon them. The subtilty of this proceeding lay in the fact that a drawer's name was never particularly noticed on a bill when other good names were on it as acceptors or endorsers; and the Collies took care that the "hired" firms should always be of good repute. They drew the bills, discounted them, speculated wildly but badly on the proceeds, lived luxuriously on money they did not possess, and were an utter sham from beginning to end. Here, then, was an organised conspiracy, unconscious, perhaps, on the part of the firms who allowed themselves to be drawn on, against which there was no counter-organisation in the money market. Even those lenders who felt uncomfortable about the bills they were in the habit of buying dared not discontinue buying them, much less prompt others to avoid them, for fear of bringing on the crash they scented. Those who took them blindly and confidently were careful not to tell any one what a large number of Collies' drafts, endorsed by good names, they were discounting, and what a profitable business they made out of the connection. Even at this time, notwithstanding the lessons of the Collie affair, and more recently of the fall of houses which had been supported by the City of Glasgow Bank, there is much indisposition to circulate bills, or to communicate,

banker with banker, as to the number and character of the bills afloat. A broker can "sort" his paper at his own discretion, letting the banks know as little as possible about his own affairs, and supplying one kind of bill to one bank, another kind to another bank, and so on. The banks are in the hands of the broker, for they keep apart from each other and seldom exchange information about the bills offering upon the market. With this suspicious and miserly reticence, who can wonder that the market was at last convulsed by a crash and was previously played with for years by unscrupulous speculators without a sixpence of their own to invest and with no legitimate trade to invest it in? And, moreover, who can wonder that every now and again a great panic in the London money market is advertised in large letters in the papers, with loss not only to the members of that market, but with ruin to the public and scandal to the world?

About the most clear example which can be put forward to show the necessity of combination to protect a market—to protect it not only from outside fraudulent attacks, but from interior random competition, and, what is more to the purpose, to fix market price—is the practice of London banks in allowing interest on deposits. That practice for many years has been to allow such interest in accordance with the Bank of England rate of discount as published from week to week, and simply to give 1 per cent. less than that rate: thus, if the Bank charges 5 per cent. per annum for lending money, the other London banks allow 4 per cent. for the use of the money left with them by depositors. The custom worked well enough while the Bank of England was the supreme power in the money market, when its rate of discount was the real gauge of the value of money, and when any

one lending money at a rate differing much from it would be instantly suspected of doing unsound business; but times have changed, and the Bank rate no longer gauges the value of money with precision, and the Bank itself is a minority, no doubt a very respectable one, but only a part of the forces determining the value of money. Its constitution also is at variance with that of the great banks grown up around it. The Bank rate, in fact, has ceased to be a proper guide to the rate of interest which the banks may allow for the deposits left with them, for the anomaly sometimes occurs that the rate so allowed by the banks has exceeded the rate which they can *with safety* obtain for the money entrusted to them. No wonder the question has arisen, Are the London banks going to emancipate themselves from the rule of the Bank of England? The banks with country branches, particularly the smaller banks, objected greatly to any diminution of the rate allowed, for fear of diminishing their very stock-in-trade itself—namely, the deposits placed with them. The London and Westminster had suffered large losses, and that bank seemed to be under the impression that the system commonly adopted of allowing for deposits just 1 per cent. under the Bank rate was the insidious cause of these losses; in fact, it found its deposits overgrown as compared with its means of employing them safely, but wished other banks to act with it in discouraging deposits for fear they should obtain too much capital to trade with. What was there to hinder it from discouraging deposits by declining to give the former interest if it felt its business growing unwieldy and beyond management? On the other side, why should less overgrown banks refuse deposits which they are quite capable of turning to profitable account? But some other rule was felt to

be necessary in order to determine the interest which banks might, one and all, allow for the money deposited with them. Competition was feared by most of the bankers and bank managers as likely to be undignified and harassing, as leading to a touting system and diminishing profits in the end; and for those reasons the reverse of competition was thought advantageous, a fixed standard was required to which all should adhere. In short, combination, not competition, fixed the market value of Bank deposits.

We have thus far traced some glaring instances of the disturbance which may set in in a market not sufficiently organised by the members in it; we have shown that ways are so left open for commercial immorality of most scandalous kind, and we may now, in conclusion, point to the cause of the defenceless condition of a market—a whole body of traders—against the attacks of a few fraudulent rascals. Without organisation and co-operation a market is as defenceless against fraud as a flock of sheep against one lean wolf, and even more so; one member may think it advantageous to keep aloof from another and to refuse him any information which might protect the latter, and in time of trouble both will be involved and the market generally upset. In the banking trade this lesson has been applied with terrible force by the Collie scandals alluded to above, and members of the money market have since then acknowledged to the writer of these pages the necessity for some sort of protective organisation against such disasters. The necessity of co-operation between the banks is agreed on by all as established, not so much as a means of increasing their profits as of increasing their safety, not so much of extending their business as of protecting themselves against fraud and loss, by

organising a common and mutual system of inquiry as to the solvency of firms before discounting their bills. Were such organisation introduced it must follow that we should hear less helpless outcry against the commercial immorality of the time, for those directly hurt by it would be quietly at work defending themselves, and the opportunities of reckless gambling with market prices would be at once curtailed. As it is, perhaps, happily we may rather say, as it was, blind trust was put in many firms who bought goods on false pretences, who borrowed money without the least power of paying it back again, and when the victims find out that they have suffered a great loss instead of making a moderate profit, the complaint is made that the age and the country are degenerating, whereas the fact is that our national sense of caution has been deadened by continued and great prosperity. It is said that fifty years ago our reputation for honourable dealing was proverbial, that our good name is now no longer the same; that systematic adulteration, short lengths, imperfect textures, short weights, false dividends, lying prospectuses, and "cooked" accounts, bid fair to destroy the repute of the nation, which had been built up by centuries of fair dealing. This is, unfortunately, not wholly untrue; but *who is to blame?* When the great inflation of prices and business in the iron trade ceased, heavy losses occurred and the overtrading speculators without solid capital at their backs were soon found to be insolvent, although nobody had previously cared to question their purchasing power. The buyers were really in such cases speculating with the ironmasters' (producers') money. When their views were correct they won—for profit is no fit term to apply to such gambling; but when prices fell instead of rising, when the iron they

had contracted to pay for at a certain price could not be realised except under that price, then they lost more than they could pay. The gamblers were to blame, of course, but where was the caution of that hard-headed British ironmaster who sold his goods for the best price to the worst buyers, and was not the seller much in the wrong to trust where no trust should have been put?

CHAPTER IV.

MONEY.

The proper Definition of Money—What is meant by the Market for Money —The structure of the Market: 1, Bank of England; 2, Joint-Stock Banks; 3, Private Banks; 4, Bill-brokers—The Collie Case and its Lessons — The City of Glasgow Bank affair—Modern Economy of Money—Price: Gold Price, Silver Price, Paper-money Price—Foreign Bills—Fluctuations in the Money Market.

To DEFINE money is considered difficult, for the word has come to be used in a very broad sense, the *substitutes* for money being included as money in the general conception of the term. We must therefore commence by laying down an exact definition of its meaning for our own guidance in case, when talking of money as it is generally talked of, we may occasionally forget what it is in reality. Concrete money is current coin of full value; coin which is not of full value is only allowed to *pass for money* for the sake of convenience; paper notes are also recognised as money only because they rest on convenience, habit, or tradition, all undisturbed by fraudulent counterfeits or failure to obtain what they promise to pay; cheques also are merely substitutes for unwieldy coin, and are no more money than an order to give the bearer of it a horse is a horse itself. Let the reader of this book, and of other books on the subject, remember this if he should chance to be enveloped by cloudy ideas concerning money, and he will soon find his mind cleared.

But in speaking of the market for money we have little to do with concrete coin; we have rather to con-

sider the abstract money—the quantity of cheques, bills, and notes, &c., besides gold, which form a substitute for it—the demand for such money and the supply of it. Real money being nothing but current coin of full value, as defined above, it would be absurd to speak of a market for real money, because whatever was bought or sold at a price, supposing coin of full weight to be the measure of price, would be only exchange for the same thing. Nobody would care to buy one hundred sovereigns for one hundred sovereigns, the process would be troublesome and profitless; in fact, it would be almost as absurd to speak of buying any sort of money with another, though it is often done for purposes of transmitting coin to a country where it is wanted from a country where it is comparatively useless. The great meaning of a money market is none of these things; it is not a market where money is sold and bought, but one where money is lent and borrowed.

The structure of the London money market, by far the largest of the kind in the world, is a curious one. It is not a concentrated, organised society, with dealers jostling one another under one roof, or competing for business at the top of their voices; it is, on the contrary, very respectable, rather dull in exterior, and the business of lending and borrowing is conducted in a few (every year becoming fewer) bank parlours and discount offices in and near Lombard Street, City. But immense masses of money pass under the control of these few central establishments; from remote districts in the United Kingdom money comes pouring in, sent by the country bankers who have it left with them for safe keeping; sent by merchants who find it convenient for their credit to have a balance always lying in London; sent by foreign bankers and other moneyed classes

abroad; sent, too, largely by foreign Governments which have any to send, and left there by our own public department, by lawyers, trustees, assurance offices, accumulating from all quarters to be borrowed again in all quarters. The machinery for lending and borrowing money works so smoothly that there is seldom the least creaking or stoppage, seldom any banging of heavy bags of gold on the floors of borrowing or lending establishments, seldom any apparent beat from the immense pulsating heart which draws in and distributes the money circulation of almost all the world's commerce. The business is done without soiling many fingers, often merely by a mark of the pen on a few slips of paper or in a book; instead of sending coin to and from London, as in the last century and later, by coach, for the temptation of highwaymen, or even by train, a letter is merely put into the post, and large sums are so transferred from one person's possession and become the property of another. A telegram even will do the work in a few minutes. Money comes to London, the great banking centre for all banks, in small sums and goes out in large; on a bigger scale, it is to banks what banks are to individuals. Mr. Bagehot describes the system thus: "Take £100 payable on "demand, and pay it back in cheques of £5 each, and "that is our English banking." In larger relative sums that is what is done by London for the smaller outlying accumulators of money. The four great classes into which dealers in the London money market may be divided are—1, the Bank of England; 2, the joint-stock banks; 3, the private banks; 4, the discount houses. They all receive money on one side and lend it out on the other, but in different ways.

(1.) The Bank of England has not the relative power

which it once possessed. The money deposited with it is larger in amount now than it was in former years, but competing banks have sprung up around it, and it is no longer the one controlling member of the market who fixed the value of money by its own charge for lending it; indeed, the competing banks find it impossible to follow its charge, competition being strong amongst themselves, and their power to compete being large because of the immense extent of the money deposited in their hands. The Bank of England is only one among many. But it has two great distinctive features which give it at times overwhelming power; its deposits are not in ordinary times a source of power, for the Bank has always refrained from attracting deposits in the way that other banks attract them; it has not allowed interest on the money deposited with it; it has not borrowed money at interest. Money so borrowed has to be paid for, and if it cannot be lent out again the borrower loses heavily. The Bank of England is not exposed to a risk of the kind, and can therefore calmly wait when money is cheap and lend only at a profitable rate; it is not obliged to lend always at whatever rate of interest its customers will give, and it can discriminate between sound and unsound borrowers with the greater independence. We have carefully defined the meaning of real money, and here the definition is useful, for, in the second place, the Bank of England derives its great power at unusual times to its possession of the one great reserve store of real money against times when substitutes fail to act efficiently in its place. The other banks and lending-houses do not keep any such store themselves; they put it in the Bank for safe custody; the smaller branch banks, the provincial savings banks, the outlying dealers in money, do not keep any such

reserve; they leave with the London banks for safety and convenience. The reserve in the Bank is found to be the ultimate reserve of the whole money markets, central and district, where sums are borrowed and lent, paid and received by means of nominal substitutes for money. The reserve of real money there held is calculated to amount to no more than fourpence in the pound of the liabilities of banks; in case every one should refuse to take notes or cheques from them instead of real money, that would be all they could get at once on the average. It can, then, be easily conceived that the Bank has occasionally a power resting on its real money reserve—£10,000,000 to £15,000,000 in amount—which throws that of any competing bank into the shade. If its power were always equal to its responsibility the Bank of England would be a political as well as a commercial autocrat, for "on the wisdom "of the Directors of that one joint-stock company it "depends whether *England shall be solvent or insolvent.* "This may seem too strong," says Mr. Bagehot, "but "it is not. All banks depend on the Bank of England, "and all merchants depend on some banker. If a "merchant have £10,000 at his bankers, and want to "pay it to some one in Germany, he will not be able to "pay it unless his banker can pay him, and the banker "will not be able to pay if the Bank of England should "be in difficulties and cannot produce 'his reserve.'" The Bank is known and shown thus to have an enormous responsibility, but in ordinary times that responsibility checks its power in the money market; its duty to the public is to keep a large reserve, its power in the market is measured by the freedom with which it lends that reserve, and so its duty and its power conflict. But at all times the money which the Bank of England has to

lend is in amount so large as to be difficult to mentally grasp. It has money in its possession in the form of—

Notes	£15,000,000
Deposits	26,250,000
Capital and rest	17,750,000
Total ...	£59,000,000

It need legally keep no reserve of money against the notes; but against the deposits, which are the real responsibility, it has to keep a reserve of £10,000,000 to £15,000,000. I say it *has* to, because every man of business would be alarmed if it did not, and there is a tacit understanding that the Bank of England must protect the credit of the nation; it has special privileges of note-issue, and this is the equivalent it gives in return. As compared with surrounding banks its lending power is, after all, not so surpassing, for the deposits and capital of the following banks stand thus:

National Provincial	£29,846,000
London and Westminster ...	29,670,000
London Joint-Stock	16,440,000
London and County	25,860,000
Union	14,350,000
City	4,700,000
Imperial	3,200,000
Alliance	3,240,000
Consolidated	3,900,000

And these banks usually keep but a very small reserve unlent in their hands or at the Bank of England; if they want money they go and borrow it at the Bank, which by their so doing has the distasteful function of supporting its competitors in times of trouble only to be underbidden by them in ordinary times. The competing banks are, as the last figures show, of more importance

collectively than the Bank of England when there is no question of real money, but in times of panic then does the Bank assert its power as the only custodian of real money; when substitutes for it fail in their efficiency the hoards of gold in the Bank vaults are wanted by borrowers (I should rather say that they want bank-notes or promises to pay that gold in some cases, but the distinction is quite immaterial). The Bank then holds the market in its hands; it can charge almost what it pleases for the loan of money, for it is the only lender in the market. Such times are very much feared; the least sign of their approach is the occasion for trepidation among unsound traders, and they early take care to secure a stock of ready money when the ordinary substitutes of money are no longer "taken for granted." In fact, even in quiet times, if the Bank directors sit half an hour longer than usual in considering their charge for lending money something is apprehended to be wrong, and people want to know the reason; if a succession of rises in the Bank's rate of interest takes place, the reserve is supposed to be endangered, the basis of our credit system shaking.

It is at times of disturbance in our credit that the Bank is appealed to, and it is then that its peculiar constitution enables it to play a prominent part in the crisis which has to be surmounted. By Peel's Act of 1844 the Bank was constituted in this manner:—It was to have the privilege of issuing the £15,000,000 of notes above alluded to, and as many beyond that sum as it is required to; but there was no profitable privilege attached to the issuing above the fifteen millions, for gold had to be kept against every pound of the excess issue. To one unversed in this peculiarity of the Bank's constitution it would be easier to separate in his own

mind the issue of notes from the rest of the Bank's business; for instance, to imagine that as soon as the Bank issues notes above £15,000,000 the Government seizes gold to the extent of the excess, and carries it off as a guarantee of convertibility. The issue department of the Bank of England might be mentally localised in Westminster instead of the City. This is, in figures, the mode in which the Bank's note accounts are kept:

Notes issued .	£37,750,000	Government debt securities .	£11,015,100	
		Other securities . . .	3,984,900	
				£15,000,000
		Gold coin and bullion . .		22,750,000
	£37,750,000			£37,750,000

The law insists upon this: if note-money is to be issued on the security of gold-money, the gold shall not be used as well as the notes, but must be kept under lock and key in case of emergency. In three great panics since 1844 that emergency has arisen, and the law has been relaxed; the importance of the institution can therefore be gather from this one fact, that the law has been broken to save the Bank of England. Thus it is that no one "ever dreams of questioning the credit "of the Bank, and the Bank never dreams that its own "credit is in danger."

Bank rate has been for many past years the recognised gauge and measure of the value of money; the rate which the Bank charged for discounting bills or advancing against security was formerly near the market rate, because the Bank was not only of and in the market, but itself formed a large proportion of the market. Since the rise of the competitors which now surround it, the Bank of England has gradually sunk into the position of a banker's bank—a simple storehouse on which the outside bankers draw when settling their daily debit and

credit balances, and from which they expect to obtain real money in case of a run upon them for cash. The term "Bank rate" is in one sense actually obsolete, for it no longer represents the *minimum* rate at which the Bank of England lends; it is rather a rate published for the convenience of the public, various transactions—such as the voluntary redemption of document bills, mortgage arrangements, allowances on deposited money—having come to be based upon it. The Bank directors, if they think proper, now lend to their customers at rates as low as can be obtained outside, however much below Bank rate the outside rates may be, and if they get the chance they "squeeze" borrowers by charging two or three per cent. above Bank rate.

(2) The joint-stock banks of London have multiplied and become prosperous because they have managed to instil confidence as to their stability in the public mind. When a bank is confided in, it is easy to induce people to deposit money with it, and when a bank obtains large deposits it has something to work with; it becomes "a "monopoly business" because competitors not possessed of public confidence cannot set up in opposition. The joint-stock banks started with large capitals, which they advertised and paraded; they were not afraid of publishing their accounts periodically; they stimulated public confidence and obtained it. Having attracted deposits into their hands, their next step was to lend out the money obtained in that manner; and, indeed, it was a step they were compelled to take, for, unlike the Bank of England, they allowed a certain rate of interest on much of the money confided to them, and had to employ it at a rate—a better rate, if possible—in order to avoid dead loss on it. For this purpose they employed intermediaries, a class of so-called bill brokers or

discount houses, who examine carefully special descriptions of securities, become familiar with the ins and outs of peculiar branches of lending business, and are glad to get the money to lend which the banks have at disposal.

(3) Private banks do much the same kind of business as the joint-stock banks, but are generally, to a larger extent, their own bill brokers; they have special connections, especially in the provinces, which enable them to lend money safely and profitably where other banks would be in the dark. As joint-stock banks increase their hold on public confidence, the tendency is for private banks to die out, for none but the great well-known concerns to exist, and for smaller ones to lose their depositors.

(4) Bill brokers, or, in other words, discount houses, are described as intermediaries between the borrowing public and the less qualified capitalist; knowing better than an ordinary great bank can possibly know which borrowers can be safely trusted with loans, they are, so to speak, paid agents of the banks. The mode in which they are paid for their trouble and special knowledge is this : they give interest on the money deposited with them by the banks, and charge a higher interest themselves on the money they lend to their customers. The discount houses pay interest on *all* the money lent them by the banks, but refuse deposits if they cannot employ them; banks, on the other hand, allow interest to the public on only a part of the deposits left with them, but seldom or never refuse deposits at a certain rate; if depositors will consent to give a week's notice of withdrawal; thus, under different forms, money is lent from the individual to the branch bank, and from the branch bank transferred to a central London bank; the latter lends it to a discount house, the discount house lends it to merchants

on their bills, and so it comes that private individuals ultimately trust their money to the discretion of these discount houses in lending soundly. A country parson may think his sole reliance is placed on the local bank in which his deposit is kept, but he never knows where his money ultimately goes; it may quite likely be lent to a manuafacturer of warlike weapons and so assist to destroy human beings, while the unconscious owner is peacefully preaching at home on the horrors of warfare; it may go to build useless railways in America, which lead to loss, panic, and ruin among the ultimate borrowers of his money, and the local bank may or may not be shaken, or may fail as a result of such causes working in the unknown distance. The important part the discount houses play in our credit system can be imagined from this simple fact, that they are the ultimate agents employed for winning interest on the money of capitalists; they do not lend all the money in existence, but they control a great portion of it. Stock brokers lend some of the money of banks on the security of stocks and shares, not of bills, but any class of such intermediaries is much less important in the aggregate than the discount houses. Overend, Gurney, and Co. were bill brokers; when they failed the failure caused trouble all through the chain I have just linked; to the farthest country village trouble was felt; to some banks ruin was the result, to many direct loss, and to every one there was indirect harm. It came home in an impressive way to the public that *the nation entrusted most of its floating capital to the bill brokers,* and the failure of the great firm was startling, for the public found they had no check on their indiscretion. On this subject Mr. Bagehot's "Lombard Street" says, "Probably not "one-thousandth part of the creditors on security of

"Overend, Gurney, and Co. had ever expected to have to "rely on that security, or had ever given much atten- "tion to it. Sometimes, indeed, the confidence in the "bill brokers goes farther. A considerable number of "persons lend to them, not only without much looking at "the security, but even without taking any security," and this remark, I believe, was not meant to apply to the small sums of "counter-money" which a discount house will receive, just as a bank will receive small sums on deposit; it applies to the large amounts heaped into the hands of the lending agent, the bill broker. How pernicious such laxity must become is best shown by the testimony of witnesses in the disastrous case of Alexander Collie, some details of which will be most useful to record as an assistance in comprehending the structure of our money market. It seems that bankers took the bills as security because bill brokers did, so that they were virtually *trusting the bill brokers*, and hardly stopped to test the bills or to study their nature.

On August 4th, 1875, Mr. Alexander Collie, of 12, Kensington Palace Gardens, and Mr. William Collie, of 8, Aytoun Street, Manchester, partners in the firm of Collie and Co., who had recently failed with liabilities of some two millions sterling, appeared at the Guildhall to answer to the charge of obtaining large sums of money amounting to nearly half a million sterling by means of bills of exchange purporting to be genuine trade bills, but which were, in fact, mere accommodation bills.

Mr. William Brown was sworn, and examined by Sir H. James. He said: I am a member of the firm of Saunderson and Co. I have been in business as a bill broker five years, or rather more, and during that time have been in the habit of discounting bills drawn by Messrs. Collie and Co. on different acceptors.

Sir H. James: Were certain of the bills that you received

from Messrs. Collie rediscounted with the London and Westminster Bank?—Yes.

I believe it is the general practice of bill brokers to rediscount bills?—Yes.

Now, did all the bills which are before you, and which were rediscounted by you with the London and Westminster Bank, bear marks or letters after words "value received," some having stars or diamonds?

Witness (after examining the bills before him): They all bear marks.

Sir H. James (to witness): Speaking from your experience as a bill broker, tell me what would the marks which you find upon those bills convey to the mind of a person engaged in trade as a bill broker?—That the bill represented a genuine transaction.

What do you mean by genuine?—That value has been given.

By whom?—By the drawer.

When you find the word "account" with letters, and the word "goods" afterwards, what does that convey to your mind? —That there are corresponding marks on bales and invoices.

Have you ever made any inquiries as to the bills?—As to the acceptors, how they were getting on, whether they were making money or otherwise.

Have you ever gone through any list of acceptors with him (the drawer)?—Yes.

How often do you think?—Once or twice a year.

When was the last time you did that?—I could not fix a date.

About how long ago?—Six or eight months I should think.

Sir H. James: From your experience as a bill discounter what would you say such marks and letters represent to persons engaged in commercial life?

Witness: If the acceptors are known as buyers of goods, I should consider the marks on the bills to be marks on goods. I mean that the same mark would be on the goods that there is on the bill. That is the inference I should draw from seeing such marks. If I did not know who the acceptors were, I should draw the inference that they either referred to goods or to an open credit account. If a bill were drawn on a credit

account at Messrs. Baring's, there would have to be the funds provided to meet such a bill.

Sir Thomas White: There would have to be value to meet the bill?

Witness: Yes. On looking over the bills again I find that with two exceptions all the drawers were known to me as buyers of goods. I had different conversations with Mr. Alexander Collie about the bills. He never told me anything to cause me to know that there were no goods against which these bills were drawn. I was in the habit of seeing him three or four times a week. I made inquiries of him as to the position of the acceptors about half-a-dozen times in the course of a year. I inquired of the firm of Collie and Company why some bills had only marks, whilst others had marks and numbers. I don't know whether I asked Mr. Alexander Collie or Mr. Evrey; it was one of the two. Having made that inquiry, *I never knew but that there were goods against which these bills were drawn.* I have made out lists of the acceptors of Messrs. Collie's bills about half-a-dozen times a year, and I have asked what market the goods were going to, and, if the amount was large, why they were buying so many goods—I mean why the acceptors whose names were on the list were buying so many. I asked for any information that could be given as to the position of the acceptors. Those inquiries were made after we had discounted the bills to which the list referred. I went through the list within six months before Messrs. Collie's suspension.

Mr. Henry Lennard was then examined by Sir H. James. He said: I am a member of the firm of Bennison and Lennard, who have carried on business as bill discounters at 39, Lombard Street upwards of thirty years. We discounted the bills of Messrs. Collie for about five years. They came through Messrs. Young and Borthwick invariably. It was our practice always to rediscount, and we rediscounted all Messrs. Collie's bills, which we received from Messrs. Young and Borthwick, with the London and Westminster Bank. (A number of bills were here placed before the witness.) You see in those bills after the words "value received," in some cases "account "goods" with letters, and in others only letters?—Yes.

In the bills discounted bearing Messrs. Collie's signature I believe you always found marks of that kind?—I don't think all the bills had them.

Did a great number of them bear such marks?—Yes.

I suppose you were acquainted with the names of many of the acceptors?—All of them.

Now, speaking from your experience as a bill broker, finding such *marks* and words on those bills, what effect do you say *would be produced by them on the mind of a person carrying on business in that line?*—That there *would be security independent of the drawer's and the acceptor's responsibility to meet the bill.*

Do you recollect your attention being called by the officers of the London and Westminster Bank to the fact that some of the bills bore letters upon them and others only marks?—My attention was once called to the fact that some bills did not contain the names of the ships by which the goods were being carried.

Now, from first to last, both before you made that inquiry and afterwards, had you any reason to doubt that these bills of Messrs. Collie had been drawn against goods?—None whatever.

Mr. Pollard said Serjeant Ballantine had asked him to request that the cross-examination of all the bill brokers might be postponed.

It was understood that this application was acceded to.

Mr. Rainbow, examined by Sir H. James: I am the senior partner of the firm of Rainbow, Holberton, and Co., of St. Helen's Place, merchants and commission agents.

What was the nature of the business with respect to which you first commenced to accept bills drawn by Collie and Co.?—Those bills all refer to specific transactions.

State the nature of the transactions?—Messrs. Collie and Co. purchased cotton on joint account with ourselves.

When did you first make application to him as to the disposition of the cotton?—From time to time since the purchase of the cotton in 1873.

What answers did you receive from him in reply to your early applications?—I received advice from him not to sell, but to hold on, the reasons given being the depressed state

of the markets and the probability of a short crop. Those inquiries were continued.

Did you at that interview (on the 14th June) have anything said to you by Mr. Alexander Collie to cause you to believe that this cotton had ever been sold?—Nothing.

On the next day, I believe, Messrs. Collie suspended payment?—They did.

And in consequence of that did your house suspend payment on the day following, namely, the 16th June?—We did.

On the 18th did you see Mr. Alexander Collie again?—I did, at his office. On the 16th we had received a telegraphic communication from a member of the firm of George Collie and Co., of Liverpool. It was in consequence of that communication that I saw Mr. Alexander Collie on the 18th. I informed him of my intention to go down to Liverpool to look after our interests there with respect to this cotton. He told me that his brother, Mr. George Collie, was away in Scotland, and that therefore, if I went, I should not see him. I reiterated my intention of going, and Mr. Alexander Collie then informed me that something very wrong had been done. I am giving his exact words as near as I recollect. He said that our cotton had been sold, and replaced, and resold again; that the accounts got mingled, and that all trace of our interest in the cotton had been lost.

Did he say anything else? Did he say what your remedy was?—He advised me to claim for the full invoice cost on the cotton upon his estate.

Did he tell you whether there was any cotton in existence at your disposal against which these bills have been drawn?—He did not.

And I believe your house now finds itself acceptors of these £65,000 worth of bills without any cotton to fall back upon?—We do.

And in consequence your house has had to suspend payment?—Yes.

You were solvent in other respects?—We were.

Did you believe at the time that you accepted these bills that the cotton was in existence to meet them?—I did.

From your experience what do you say would be the

inference drawn by a commercial person taking those bills and reading those marks and letters on them after the words "value received?"—I should take them to be an index of the special transactions for which the value was received by the acceptor.

And those marks would represent goods?—Yes; for instance, if Collie and Co. purchased 10,000 pieces of shirting, and wished to delay the shipping, they could not have been kept out of their money, but they would have drawn against us, and have put a mark to represent the goods as an indication that they were holding the goods on our account.

Then do I understand you that those marks represent goods in the hands of some one?—Certainly.

Cross-examined by Mr. Pollard: Of the cotton that was purchased on our joint account, 700 bales were bought at $9\frac{3}{4}$d. a pound, 700 at $10\frac{3}{4}$d., 500 at $9\frac{1}{2}$d., and the remaining 2,000 bales, I believe, at $7\frac{3}{4}$d.

Was there any conversation between Mr. Alexander Collie and yourself, in which he guaranteed you that your loss should not exceed £500 or £1,000?—In October last I asked him what our share of the loss on cotton would be, and he replied about £1,000.

The price of cotton is published daily, and is as easily ascertainable as Consols?—Yes.

And you believed that on 3,900 bales kept from March, 1873, with charges for storage, the loss would only be £1,000?—Mr. Alexander Collie told me that it was a particular kind of cotton for the manufacture of a peculiar kind of goods, and that it was on that account that it was not sold.

At the end of 1873 was there not a loss of £20,000 on these 3,900 bales of cotton?—I can't say.

Is it not the fact that Alexander Collie offered to work that account, and that your loss should not exceed £1,000?—He offered to do it for less than that on the 14th of June.

I ask you whether it is not the fact that when you were accepting these bills he offered to guarantee you against a loss of not more than £2,000?—He did offer, but the guarantee was not accepted.

Did you debit yourselves with a single sixpence in respect

of these cotton transactions?—We did not. The cotton was not realised, and it is not our practice to debit ourselves with any loss till the account is closed. This was opened.

Mr. Alexander Collie never had guaranteed your loss?—Never.

And instead of your loss being £1,000, I am afraid it is £65,000?—It is £53,000.

And there is no cotton to sell?—None at all.

Messrs. Collie having sold it all?—Messrs. Collie having sold it all.

Sir H. James then put in several original documents, one being a memorandum dated 7th July, 1874, signed by Alexander Collie, that the accounts opened in their books for the resale of goods and of cotton, which had been hitherto held on joint account, should be held on the sole account of Alexander Collie and Co., and that a charge of one per cent. be allowed by them to Alexander, Son, and Co. on all their acceptances on account of the above after the 1st January, 1874. The other documents were of a similar character, *one per cent. commission being allowed to the acceptors of bills.*

The whole case is melancholy, but instructive. It shows (1) that the lenders on security of the bills took no sufficient precautions; (2) they had no adequate information as to the solidity of the acceptors of the bills, and they were quite in the dark as to whom they were really advancing money to. When the whole thing came out bank managers and directors professed their great surprise; they had never seen an acceptance of Collie's; that firm had its name only as a drawer of bills, and the contingency of a drawer having too many bills in circulation was never anticipated; (3) the case also showed that a confusion of ideas existed among the banks as to whether they trusted to the bill brokers or to the solidity of the security which the latter deposited when they obtained money from the banks. If the bill brokers' integrity and skill are to be

solely trusted to, then the solidity of their business must be regarded and nothing else; but if the bills are to be trusted to exclusively, then the functions of the bill broker are at an end, the banks will be their own broker, will see to the detail of bills and credit; in that case the brokers must to a great extent cease to exist. Bankers and bank directors should decide what they are really trusting in.

The question might be, and indeed has been asked, Why did the joint-stock banks more than other banks suffer from operations by the fraudulent borrowers? The greater part of the bills discounted for Collie and Co. were held by them, four of the principal joint-stock banks having more than a million of the worthless paper as security (!) against money lent, and it was therefore shrewdly enough conceived that the banks in question were overloaded with deposits, that they had more money on their hands than they could employ safely and profitably. The dilemma was singular, but perhaps there can be no wonder that the joint-stock bank managers preferred to risk money on doubtful security rather than endure certain loss by not lending at all. The safeguard against such dilemmas is difficult to apply in practice; it has been suggested that no interest should be allowed beyond a certain amount of deposits; that banks should agree amongst themselves as to what they can afford to pay in the way of interest, and so avoid competition for deposits; that co-operation should be resorted to among the banks in order to obtain information for their own guidance as to the stability of firms whose bills come before them for discount. But time only can show if any of these suggestions is practical.

We are said, and in one sense with truth, to have had

"the Collie business over again" in the City of Glasgow Bank failures. A few firms, engaged like Collie's in Eastern trade, drew bills, and the Glasgow Bank accepted them; that firm, as we have already said, had its name only as a drawer of bills, and the credit of the acceptors was made a cloak for over-trading; the firms which drew upon the City of Glasgow Bank were similarly supported by it. That until the acceptances of the Bank had grown to an outrageous extent did the names of the drawers attract much attention, and then it became apparent that, as soon as the bank stopped payment, the firms which had been allowed to draw so heavily on it would have to stop too. Messrs. Smith, Fleming and Co., for instance, stopped payment the day after the Glasgow Bank. The particulars of that rotten combination of drawers and acceptors present several points of resemblance to those of the Collie affairs, as already detailed. One very marked feature of resemblance may be seen in the losses which large joint-stock banks suffered by taking the bills of the "combination" in each case. These large joint-stock banks seemed to be as much as ever overloaded with deposits when the second crash came, as at the time of the Collie disclosures, and as, in that case, the bill-brokers were found to be but broken reeds for the banks to lean upon. The dilemma above referred to would seem to be insoluble. Banks with large deposits, on which they pay interest, must employ their resources somehow, but experience seems to show that they cannot employ them with absolute safety.

If these illustrations have given a true idea of the constitution of the money market, they have also shown that the said constitution is in some respects a shaky one.

Modern Economy of Money.

We have various appliances now in existence for dispensing with money in settling transactions and paying debts; and there is always so much indebtedness among merchants that such appliances are facilitated as well as made necessary if business is to be unimpeded. It is well known that money is in reality little used, but that substitutes of more or less efficiency are used in its stead, that those substitutes generally work well enough, though they occasionally fail entirely to settle debts, and then real money is wanted to supply their place. In times of panic, or general fear, that is, for the stability of firms using substitutes for money—they may be bills with "bad" names on them, the notes of a tottering bank, cheques with "no effects" in the bank on which they are drawn—money is suddenly wanted in all sorts of transactions, for anything but money may be refused in many cases. In ordinary times A will send goods to B, which the latter will sell to C; A will not insist upon having his money for them until C pays up; then, instead of C paying B, and B then taking the money to A, it will be more convenient for C to transmit it direct to A; the chain may reach from A to Z, Z liquidating the debts backwards all through the alphabet by handing the money to A, the rest being arranged by a few figures in Y's, X's, &c., back to B's account books. But in times of bad credit A will perhaps object to waiting till Z pays him, and demand immediate payment from B, who runs to C for money, and so on. The machinery of credit soon becomes impeded because of the interdependence of its parts, and it is upon credit that all modes of economising money are based. It is well to understand this,

because fluctuations in the money market are of the most violent character when some of our modes of doing without real money fail and become inefficient; at such times the demand for money and its value alike increase enormously. No better instance of the fundamental system which enables us to dispense with money in our great trades, except in the settlement of small balances, is furnished by the clearing-house system as applied to banks. In London and Manchester, banks settle their balances every day by this means. But it may occur that all is not correct, that, on the contrary, some of the cheques are on overdrawn and bad accounts; the cheques are dishonoured, sent back through many hands, and money has to pass instead. That is a way in which stringencies may occur in the money market.

Price.

First, but only incidentally, an analysis of price, in so far as it is connected with market fluctuations, leads us to the remark that not only do variations in demand and supply influence the price of every article, but fluctuations in price have a great immediate effect on the volume of trade in all markets. It is always seen that when the price of an article begins to rise every one rushes into the market and buys; when it begins to return to its previous point nobody buys the article if he can possibly do without it, for he expects to be able to obtain it cheaper by waiting. Remembering this the reader will be the less surprised at the heavy fluctuations in prices and business which nearly all markets exhibit; it would be natural to think "every one does not grow rich all at "once; it is the work of a lifetime, and is then often at "the expense of others who grow poor. People do not

"all want to buy Consols at once; they do not all want "fire-shovels at the same moment; there is nothing to "cause sudden anxiety to become possessed of hats, "coats, tea, furniture, railway stock, copper bars, &c.; "the fierce competition in buying them must be a "mania, an epidemic. Population increases steadily, "and therefore the demand to supply this population "should increase steadily too. Trade should be steady, "in short." It would be natural to think thus, but it would be wrong; and this book should show it to be wrong—should show, on the other hand, that there are cycles of inflation and contraction in market prices, extending over weeks, months, and sometimes years.

There are various kinds of price. There is the gold price, which we are used to in England, and which is the best and least varying standard by which every article may be measured; but even gold is not by any means an unvarying measure. Professor Jevons, in his work on "Money," states that between 1789 and 1809 it fell in the ratio of 100 to 54, or by 46 per cent.; that from 1809 to 1849 it rose again in the extraordinary ratio of 100 to 245, or by 145 per cent., rendering Government annuities and all fixed payments extending over this period almost two and a half times as valuable as they were in 1809; that since 1849 the value of gold has again fallen to the extent of at least twenty per cent., and that fluctuations of from 10 to 25 per cent. occur in every credit cycle. Now, Mr. Jevons is no doubt right, for a sounder theorist hardly exists, but we must avoid his mode of looking at the question, and show, not that the price of gold has varied as compared with commodities, but that market prices have fluctuated as measured in gold.

Then there is the silver price, which has varied 25 per

cent. within the last fifteen years as compared with gold. Values expressed in silver would thus be doubly deceptive. The table subjoined shows the great variations which that metal is subject to even from year to year, and the influences which bear upon its market value as metal. The *first* and most important consideration in determining its value is the amount required by India, for that is an exporting country, whose exports have to be paid for in silver, and a country, moreover, with a population increasing its commerce even more rapidly than its number. I say India because, although the silver is given below as exported to "the East," yet China absorbs little itself, but gradually sends it to India ultimately in order to pay for opium. It will be seen, then, that when the drain of silver to the East was at its strongest point, the price of silver was at its highest. *Second,* the amount of silver imported into England has had much influence, for most of the silver produced throughout the world comes to London as the central and best market, and our imports therefore gauge pretty accurately the yearly supply. Of late years our import of silver has been largely swelled by an increased production from the mines of California and Nevada, and more directly by the surplus from Germany, which is engaged in substituting gold for the silver formerly current. The coinage of silver in Germany up to 1871 was ninety-four millions sterling; much of that had probably been exported or destroyed, but there was no doubt a large quantity which would have to come on the market as metal, for the amount of silver to be retained in that country is not to exceed twenty millions sterling, so that the German supply has been sufficient to depress its market price severely and continuously. The effect on our imports has therefore been to swell them, most

of the metal from Germany coming here, although France has absorbed a great deal, and a little has been shipped direct to the East. *Third*, an influence bearing greatly upon the value of silver is to be found in the more extensive employment of gold as currency which has succeeded the gold discoveries of 1848, the greater supply consequent on them forcing silver out of use as a much less convenient metal for coinage and for international payments than gold. The gold price of silver has now fallen under 57, after having been over 62 during part of the year 1864, We have recently had to send silver to India as a loan to help that country during the rice famines of 1873–4 and 1877, but that demand has been powerless to take off the additional supply or arrest the downward course of the market price. India has a wonderful power of absorbing greater or less sums of silver as the supply varies, and it accommodates its requirements of that metal to its power of obtaining it in this manner: when silver falls in value, imports of goods into India are checked, for shippers want more of the Indian currency than before to compensate them for its decreased value, and this, having all the effect of making prices higher, checks the demand for goods; and on the other hand, exports of Indian produce are just as much stimulated, for gold can be obtained for them, and gold has become more valuable in its relation to silver. So that in the case of a fall in the value of silver India exports more in order to get gold prices, and imports less in order to avoid paying the enhanced silver prices; and as this must leave an increased balance in favour of India, money must be sent to settle it. In this way it is that a prolonged fall in the value of silver finds India ready to absorb more of it as currency. When the value of silver rises, the

rule of course has an inverse application, and it absorbs less. Lord Northbrook alluded amongst other things to the natural conditions which govern payments from India to Europe when the price of silver has fallen: "Every one," he said, "who has to make a remittance "to England, that is to say, who has to make a payment "in gold while he receives his income in silver, has to "pay more silver, or, in other words, a larger portion of "his income than he had to pay when the value of "silver was higher. The Government of India is one of "the best abused governments in the world, and I have "seen it asserted that this fall in the value of silver "is our fault. This accusation reminds me of the witty "lines—

"Who makes the quartern loaf and Luddites rise?
Who fills the butchers' shops with large blue flies?"

"I need hardly say that the Government is not a whit "more responsible for the fall in silver than Bonaparte "was for the flies. Governments can do much—when "they interfere with trade they usually do much harm "—but they are powerless to control the value of any "article in the markets of the world. What the cause "of the fall in silver has been, and how long it may "continue, is not easy to say."

Then there is a paper price, which is more misguiding even than a silver price, if the relative value of goods in a market is sought to be ascertained from time to time. The fall in the value of paper as compared with gold in the United States is the best example of fluctuations in market price which may take place, but yet be wholly independent of the variations in the real value of the particular commodity bought and sold in a market. A table will be found farther on which shows the violent

Fluctuations in the Price of Bar Silver per Oz. Std. from 1847 *to* 1874. *(Published by Messrs. Pixley and Abell, Bullion Brokers.)*

	Yearly Average	Silver Coined in England.	Amount of Bills drawn by India Council.	Export of Silver from England to the East.	Imports of Silver in Bars and Coin.	Average Bank Rate of Discount.	Remarks.
		£	£	£	£	per cent.	
1847	$59\frac{11}{16}$	125,730	...	...	...	5	Year of Panic. £10,000,000 granted for relief of Famine in Ireland. Gold discovered in California.
1848	$59\frac{1}{2}$	35,442	...	...	...	$3\frac{3}{4}$	Sikh War.
1849	$59\frac{3}{4}$	119,592	...	...	...	3	First importation of Californian Gold into England. Annexation of the Punjaub.
1850	$60\frac{1}{16}$	129,096	...	...	...	$2\frac{1}{2}$	Average of Consols $96\frac{1}{4}$.
1851	61	87,868	...	1,715,100	...	3	Discovery of Gold in Australia.
1852	$60\frac{1}{2}$	189,596	...	2,417,450	...	2	Consols touched 102, and averaged $99\frac{3}{4}$.
1853	$61\frac{1}{2}$	701,544	...	3,117,980	...	$3\frac{1}{2}$	Australian Mint established.
1854	$61\frac{1}{2}$	140,580	...	3,095,490	...	5	Russian War began.
1855	$61\frac{5}{16}$	195,510	...	6,431,733	...	$4\frac{3}{4}$	Loan of £16,000,000. Fall of Sebastopol.
1856	$61\frac{5}{16}$	462,528	...	12,113,991	...	$5\frac{3}{4}$	Russian War ends.
1857	$61\frac{3}{4}$	373,230	...	16,731,915	...	$6\frac{3}{4}$	Panic. Suspension of Bank Act. Indian Mutiny. Loan of £1,000,000 to East India Company.
1858	$61\frac{5}{16}$	445 896	...	4,753,933	6,700,000	$3\frac{1}{4}$	End of Indian Mutiny.
1859	$62\frac{1}{16}$	617,064	...	14,828,521	14,772,430	$2\frac{3}{4}$	Loan of £5,216,528 to East India Company.
1860	$61\frac{11}{16}$	218,403	...	8,478,739	10,394,000	$4\frac{1}{4}$	Commercial Treaty with France.
1861	$60\frac{13}{16}$	209,484	...	6,824,807	6,590,000	$5\frac{1}{4}$	Financial depression in India. American Civil War begins.
1862	$61\frac{7}{16}$	148,518	1,193,728	10,091,460	11,753,000	$2\frac{1}{2}$	Great distress in Cotton Manufacturing Districts. Panic.
1863	$61\frac{3}{8}$	161,172	6,641,576	8,263,011	10,888,130	$4\frac{1}{2}$	Large exports of Gold to the Continent to pay for Silver.
1864	$61\frac{3}{8}$	535,194	8,979,521	6,254,004	10,827,300	$7\frac{1}{2}$	£13,000,000 Silver exported from France.
1865	$61\frac{1}{16}$	501,732	6,789,473	3,598,058	6,980,000	$4\frac{1}{2}$	Close of American War.
1866	$61\frac{1}{8}$	493,416	6,998,898	2,365,626	10,778,000	7	Commercial and Joint Stock Companies Panic.
1867	$60\frac{9}{16}$	193,842	5,613,746	642,912	8,020,000	$2\frac{1}{2}$	Great decline in export of Silver, only £2,500,000 sent from France.
1868	$60\frac{1}{2}$	301,356	4,137,284	1,635,642	7,716,420	$2\frac{1}{4}$	Abyssinian Expedition.
1869	$60\frac{7}{16}$	76,428	3,705,741	2,362,943	6,730,000	$3\frac{1}{4}$	Distress in Lancashire.
1870	$60\frac{9}{16}$	336,798	6,980,121	1,579,473	10,649,000	3	Franco-Prussian War. Panics.
1871	$60\frac{1}{2}$	701,514	8,443,508	3,712,473	16,520,000	$3\frac{1}{4}$	£8,500,000 Gold exported to Hanse Towns. Peace between France and Germany.
1872	$60\frac{5}{16}$	1,243,836	10,310,338	5,654,451	11,140,500	$4\frac{1}{2}$	£8,050,000 Gold exported to Hanse Towns. Commencement of decline in price of Silver.
1873	$59\frac{1}{4}$	1,081,674	13,939,095	2,497,576	12,302,220	$5\frac{5}{8}$	£10,000,000 Gold exported to Hanse Towns. *German* Government announces the *demonetisation of Silver.*
1874	$58\frac{5}{16}$	890,604	10,359,375	7,092,726	11,797,990	$3\frac{3}{4}$	Enormous increase of Bullion in Bank of France, £22,000,000, mostly Gold.
1875	$56\frac{7}{8}$	594,001	10,841,615	3,714,404	9,506,757	$3\frac{1}{4}$	Heavy Commercial failures. Large export of Gold to Germany.
1876	$52\frac{3}{4}$	222,354	11,513,233	10,914,407	13,585,608	$2\frac{1}{2}$	Remarkable fluctuations in rates of Indian Exchanges. Bar Silver lowest price on record.
1877	$54\frac{13}{16}$	420,948	8,637,530	17,007,458	21,625,652	$2\frac{3}{8}$	Great Famine in India. Russo-Turkish War.

artificial inflation which paper prices underwent as compared with gold when the Americans were so ill situated as to have to take to paper money instead of real. Even now the effects of that bad measure have hardly passed off, 100 dollars paper, until recently, being good to purchase much less than 100 dollars gold. If a cotton merchant in Liverpool wished to buy cotton, he had in theory first to purchase currency with gold, and then buy cotton with currency; if a dealer in New York wished to sell cotton in Liverpool, he had to exchange his cotton for gold and then his gold for currency, the currency price alone being of course no direct guide to the real value. Indeed, a paper price is itself subject to unlimited fluctuations in the sense that paper money may become reduced in value to nothing at all. The paper money in the United States fell to less than half its value during the civil war in America, and therefore more than double the previous amount of paper had to be given in making payments. But the Americans instituted a curious fiction; they did not allow that their paper money had fallen in value, they assumed that gold had risen. On this assumption the value of gold was always quoted in its relation to paper at so much premium, whereas in reality the paper was at so much discount. In 1864 paper reached its lowest depreciation, and gold was then quoted at 285 per 100, or at a premium of 185 per cent. as compared with paper money, this of course meaning that paper dollars were worth only 35 per cent., or little more than a third of what gold dollars were. Since that time paper dollars in the United States have been gradually but steadily gaining in value, the growing trade of the country throwing a demand on that, then the only recognised, currency;

and so, as the Americans put it, reducing the premium on gold and depressing the prices of all commodities measured in paper currency. To trace minutely the fluctuations in the price of paper dollars would be only to trace the history of the great body of trade which has swelled and swelled with little intermission until the autumn of 1873, when the credit which had inflated it gave way, commercial progress was stopped, and the money of the country lost value immediately. We can therefore be content to record from year to year the fluctuations of the gold premium without troubling ourselves with many minor causes for them, since the predominant influence of trade on the value of paper currency has thrown every other into the shade. In January, 1862, there was no depreciation of the currency, for there was no more in circulation than was wanted, and we can therefore start from that year and show what the effects of the war inflation on that currency have been:—

Premium per 100 *on Gold in America as compared with Paper Dollars.*

	1862	1863	1864	1865	1866	1867	1868
Highest .	37	72½	185	134½	67¾	46⅜	50
Lowest .	0	22½	51½	28½	25	32	32

	1869	1870	1871	1872	1873	1874
Highest	62½	23¼	15½	15¾	19	13⅝
Lowest	19½	10	8⅜	8½	10	9½

When the year 1873 was reached it will be seen that the steady tendency of the premium on gold to disappear was checked; paper no longer gained in value, for the panic of that year reduced trade and prices everywhere so much that less money in each transaction was required, and fewer transactions took place. During the time of the panic, paper dollars were of course in

universal demand; credit was shaken and creditors wanted their debts paid in currency and not in promises to pay; but gold was also in demand for the same reason, and therefore when the value of paper dollars suddenly rose, the value of gold rose with it. Paper dollars as well as gold rose as compared with produce; precipitate sales of corn, cotton, petroleum, &c., were made for ready money, which depressed prices; or which, in other words, raised the value of the currency they were expressed in. As a means of mitigating the scarcity of money, the Government found out and partly used its right of issuing notes to the extent of not more than $400,000,000, the amount in circulation having previously been only $356,000,000. This of course helped in turn to depreciate the value of paper. Since 1873 great commercial depression has been keenly felt all over the United States, and much pressure has been put on the Government to add to the supply of money by issuing additional new "greenbacks," as the Government paper currency is called; the expectation of such a measure led to a gradual rise in the gold premium to 13⅝ per cent. in the spring of 1874, but in April the President vetoed a bill for that purpose which had passed through the two political assemblies of America, and the premium at once fell to 12. The fluctuations which have since occurred have been occasioned by "gold "corners," which originate in some wealthy speculators locking up the supply of gold in America, and then realising it at a profit when customs payments (which have to be made in gold) raise a mercantile demand for it, or when it is required for export; gold is thus turned into a mere commodity to be speculated with in ordinary times, just as coffee or cotton is. Under such exceptional circumstances, however, it can hardly be said

that the value of paper dollars has fallen, but rather that the value of gold has been artificially increased. In 1878 the value of "currency" rose to par, that is to say, 100 dollars paper were at last worth as many dollars gold. This desirable result was attained by the United States Government going to work at both ends—first by withdrawing currency, and second by accumulating gold; the scarcity of the one, the increasing abundance of the other, thus brought the respective value of the dollars, gold and paper, to an equality.

Foreign Bills.

There are dealers in foreign bills to whom the fluctuations in the value of such bills are, of course, of the greatest importance; but also to every exporter or importer of goods the price of bills on the countries with which he has transactions is an item in his profit. To put the case in its simplest form:—An exporter sells his goods and has only a piece of paper to show in exchange—it is a draught on, or command to, his customer for payment. He then sells this order (technically it is called a bill) and gets money for it. The amount of this money varies with the state of the exchanges, and therefore fluctuations in the exchanges mean fluctuations in the value of the produce he sells.

To find the value of bills the state of the exchanges must be considered. The simple case put above shows that bills are created when exports are made from a country; and in international transactions the bills created in one country may exactly equal in amount the bills created in the other country dealt with. In that case there would be no occasion to transfer money from the one to the other at all: England, as the one, might

owe as much to the other, say France, as France did to England; and then bills on England would find buyers in France without pressure to sell, and bills on France could be as easily sold in England.*

But this is seldom or never the case. There is always a balance owing from one commercial country which deals with another; in the spring America, for instance, often owes much money to England, and bills on England are highly prized by Americans as a means of wiping off debts to this country. But in the autumn there is a total change: exports of corn and cotton have been made to us, and bills on England are created largely; and then those Americans who have to pay debts here find a large supply of bills on offer and do not pay so much for them as if they were scarce. Occasionally one country may be so much in debt to another that the bills on that other country are not nearly sufficient to wipe off the amount due; say a foreign merchant has to pay for iron, against which a bill has already been drawn on him in London, but if he cannot procure a bill on London which can be used as a set-off against his debt here, what is he to do? Either he must send gold to meet the bill drawn on him, or he must arrange so that somebody else meets the bill for him; the upshot will be generally that hard cash must

* As an apt illustration we may quote a letter in a Scotch paper which ran as follows:—Mr. Clavering of Glasgow, through transactions having no earthly connection with the Emma Mine, chanced to require to remit £20,000 to America at the very time when Mr. Park had remittances to make to the Emma Company in London. Instead of this double remit tance, Mr. Clavering paid his money to the Emma Company in London, while Mr. Park arranged Mr. Clavering's payment in America.

be sent. Bills of exchange, in the abstract, are only records of debt due between countries; when the debt from one country to another is compared, by means of the quantity of bills afloat, with the debt due, there is found to be a balance in favour of one or the other, and that balance must be paid in cash. And here we cannot do better than quote Mr. Göschen's admirable work on "Foreign Exchanges" (Chap. IV.):—"When the foreign "exchanges are in actual operation, and adjustments of "accounts are taking place between different countries, "it appears at once that, though the purchase and sale "of foreign bills originally represent a simple transfer of "debts, and thus at first sight seem to exclude the idea "of varying prices, the value of these bills is nevertheless "in a state of constant fluctuation."

He further notes that, while every instance of such variations admits of a special practical explanation, all are nevertheless subject to well-defined general laws, and capable of scientific analysis.

"Let us suppose," says Mr. Göschen, "that importers "foresee that the bills they will be able to procure will "not suffice for all the payments which they have to "make. They at once become aware that the balance "will have to be remitted in bullion; and each individual, "to avoid this necessity falling to his share, hastens to "offer a slight premium to those who draw, intending "by this small sacrifice to secure himself against the "greater loss in freight, insurance, and interest, which "is always involved in a bullion remittance. The "premium may rise to within a fraction of this expense "or loss; nay, may even reach that actual point; "because, though the premium paid for the bill and "the cost of the specie remittance were absolutely equal, "it would still be more convenient to send the bill.

"Beyond this the balance of trade cannot cause the "premium to rise; nor, on the other hand, can it cause "the discount at which bills are sold ever to exceed the "sacrifices which exporters would incur if they found "themselves obliged to instruct their foreign debtors to "send them bullion in consequence of bills upon them "no longer being saleable."

Exceptional times of Panic sometimes occur, however, when it is necessary to pay or accumulate money immediately in a certain city; and on those occasions a draft on a house in that place is so valuable that more money will be given for it than would pay for the transmission of bullion. This is so, inasmuch as the draft, if duly honoured, means money on the spot and at once, whereas bullion would take some time to arrive, and in the meanwhile perhaps some disaster might occur, such as a run on a bank, which the command of ready cash would have obviated.

There are also countries where the Currency is "depre-"ciated," where the value of the paper money or token money in circulation is at a discount compared with that of the country to which money is owed; the price of bills being expressed in that depreciated money, is apt to vary widely and without limit according to the variations in the value of money itself. In reality it is not so much the value of the bills which varies as the value of the currency they are expressed in; but it will be readily understood that a foreign bill, being an order to pay a certain fixed sum in the currency of a foreign country, is of more value in the country where drawn if that currency increases in value, and is *vice versâ* of less value if the currency becomes depreciated. For instance, an order to pay paper dollars in New York is worth more gold here when gold stands to paper dollars

as 100 to 110 than when 115 paper dollars have to be given for 100 dollars gold. Similarly, an order to pay silver in India is of greater or less value here as the price of silver rises or declines.

Closely linked with the value of a country's currency is the Rate of Interest current in such a country. Where the rate of interest is highest, thither will money tend to gravitate. It is the "loose" money which goes; not the money which is employed in the same way and in the same place all the year round, but that floating supply of cash for which the owners have no means of employment, as to which they are indifferent whether it lies in London or Lapland so long as it returns them decent interest. Supposing the rate of interest at Berlin to be 6 per cent. per annum, while it is only 3 per cent. in London, those who have loose money in London will wish to take it to Berlin; the cheapest way to transfer it will be to buy in London draft bills, or, in other words, orders to pay money in Berlin, and the price of such bills naturally rises until it is no longer so cheap to buy orders on Berlin as it is to send the money itself. In the opposite case, the rate of interest in London being higher than the rate in Berlin, there is just the same anxiety to bring money hither from Berlin, and drafts on that city are no longer in request; they fall in the market.

And then another cause of fluctuations in the value of foreign bills is the Credit of the place on which they are drawn. Whole cities, whole countries even, are exposed to varying degrees of commercial repute, just as are individuals; and therefore the bills on a certain city may sometimes be in more demand than at other times merely because a blast of discredit has shaken faith in the solidity of the firms on whom the bills are drawn.

But we have been keeping closely to the simplest form of bills. The fluctuations described are all more or less common to "short" bills—orders to pay immediately, that is; but when "long" bills are considered it will be seen how much more extensive is the field for fluctuations. "The fluctuations in bills at sight are limited," says Mr. Goschen, "to a certain extent, by what we "have called the specie point. . . . The fluctuations "in long bills, on the other hand, are unlimited, "because they are coextensive with the fluctuations in "the value of money in the accepting country, and "coextensive, too, with the apprehensions which may "be felt as to the solvency of the names on the bills. "The effect of the value of money, or rather of every "variation in the prevailing rates of discount, upon "the Foreign Exchanges, is a matter of the highest "importance. The extent to which the solvency and "credit of the drawer, as well as of the acceptor, of a "bill affects the value of that bill, and consequently of "the rate of exchange at which it will sell, does not "require much elucidation. Firms of first-rate standing "are said, in technical language, to make the best ex- "changes. The price which is paid to a merchant of "undoubted position for his sixty days' sight bill on a "foreign country will be higher than that which is "granted for a second-rate bill on the same place. The "purchasers of bills must be induced, by a concession "in price, to take an article of inferior security. They "must be indemnified for the greater risk. Credit is a "very important element to be considered in the rate of "exchange; and so notorious is this amongst those en- "gaged in international trade, that the price at which "exporting houses can sell their foreign bills is looked "upon as an unerring test of the credit which they

" enjoy among their neighbours.* Thus credit causes a " difference in the value even of such foreign bills as are " drawn on the same day, rendering it difficult to give " any exact or definite quotation of the price of long-" dated paper; and further, it operates on exchanges " generally in times of commercial panic or excitement, " and causes the price of all bills to fall."

Putting minor considerations aside, it will be better to look at the simple demand and supply of long bills, by which their price is mainly regulated, just as is that of other commodities. Long bills come into existence much in the same way as short bills are created; goods are sent from one place to another and bills are accepted as a promise to pay for the goods received. But whereas short bills are often created against the remittance of stocks, shares, and various public securities handed from one place to another, long bills are (1) chiefly against goods which the importer wishes to sell before he settles the bill drawn against them. This is a convenient form of credit, subject to much abuse and many shocks from disturbed commercial and political relations between the cities affected, and not sufficiently scrutinised and kept in check by the keen men of business who traffic in such bills; but it must not be lost sight of as a form of credit, and therefore subject to a contraction or an inflation which soon swells or reduces the number of bills offered in particular exchanges. (2) Long bills also come into existence in this way:—One firm in London owes another, say in Paris, a certain sum of money. " Draw a bill

* A bill broker would object to this—would say that he has often good bills to sell, but cannot get a good price merely because the names on them are unknown on 'Change; but it serves to show that credit is an element in the fluctuations in the market for bills.

"against me," the London firm will perhaps say, "and "I will pay the amount at once." "No," is the answer, "I do not want money at once; keep the amount at your "own disposal for three months at the current rate of "interest in London, and I will draw a bill on you to "come due at the end of that time; if I want the "money before, I can sell the bill and so raise it." As for the *demand* for long bills, the last sentence will do much to show their value to capitalists who want them primarily as an investment, and find them convenient because by selecting bills on particular places they can also select the best market in which to employ their money. This being the case, the value of long bills on foreign cities depends greatly on the state of the money market in the particular city on which a bill is drawn, and, like other investments, fluctuates as the rate of interest on money fluctuates. For instance, when the value of money in London is thought likely to fall, a speculator in long bills buys them up eagerly if he can obtain them at a price less the actual discount rate, for he will soon after be able, if his speculation turn out rightly, to sell them at a better price, the discount to come off then being at a reduced rate. If he had bought short bills he would not be in so good a position when they matured and were paid off; he would find himself saddled with money in a market where the value of it was declining, and he would find a difficulty in getting so good an investment as before.

The fluctuations in the rate of discount have, however, been already broadly traced, and it is not necessary here to go into the intricacies of the market for long bills, variations in the value of which depend so much on the varying value of money. Long bills are of use in economising the creation of short ones, and when trade

is brisk between cities the same long bill will be the means of making many payments in different markets. Activity of trade and a demand for money thus bring long bills into demand because they serve the purpose of money itself, besides being good investments when money is dear.

As already noticed, long bills are liable to unlimited fluctuations consequent on variations in the currency of the country in which their value is expressed. The loss inflicted on holders of such bills when the currency in question becomes depreciated is sometimes severe, and the disgust with which merchants look upon a fluctuating currency has no doubt much influence in driving away trade from the country afflicted with paper money. Instances of enormous loss in taking bills on such a country are well known among money dealers and foreign bill brokers, and may be recited here as enforcing our remarks on the pernicious effects which may result from governments disregarding trade and markets in their legislation. One remitter to Italy bought long bills on cities in that kingdom; before the bills came due the currency in which the bills were expressed had become terribly depreciated by a new issue of paper money, and he would have incurred a great loss if he had exchanged back into English money. Instead of doing so, however, he invested in an internal public stock, which was quoted in paper money, and waited until Italian currency recovered and exceeded its former value. By this lucky speculation he was able to hold on and make a profit on his original purchase of bills, but the loss to other dealers was no doubt immense. Fluctuations in the value of a currency must necessarily inflict loss on those whose money on the one side, or whose goods on the other, are depreciated by them.

Another instance of loss by holders of bills of exchange is to be found in the state of affairs in Portugal when the late war occurred in Brazil. Many firms in Rio de Janeiro owed money to Portuguese firms for goods received, and bills to a large extent should have been consequently drawn by Lisbon on those houses at Rio; the war broke out, the current money suddenly lost value, the bills expressed in that currency lost value in proportion, and when they came due would have been paid in miserably depreciated paper. The Portuguese correspondents who had lost by these specific transactions had also lost their trade and were half ruined, and, what with direct losses and the accompanying general commercial depression, Portuguese finances were at a low ebb. The bad time was, however, tided over somehow; a reaction came, and those who had preferred to leave their money in Brazil, instead of exchanging it at a loss into Portuguese currency when their bills matured, ultimately made a good profit on the transactions which had led to the creation of those bills.

Exchange business may be driven from a market by reckless and vexatious Restrictions emanating from Governments as well as by depreciations of currency which may not be avoidable. Paris was, before the war with Germany, a city where many exchange operations were conducted. Mr. Bagehot says: "Formerly, for "many purposes, Paris was a European settling house, "but now it has ceased to be so. The note of the Bank "of France has not, indeed, been depreciated enough to "disorder ordinary transactions. But any depreciation, "however small—even the liability to depreciation "without its reality—is enough to disorder exchange "transactions. They are calculated to such an ex-

" tremity of fineness that the change of a decimal may " be fatal, and may turn a profit into a loss. Accord- " ingly, London has become the great settling house of " exchange transactions in Europe, instead of being, as " formerly, one of two; and this pre-eminence London " will probably maintain, for it is a natural pre- " eminence. The number of mercantile bills drawn " upon London incalculably surpasses those drawn on " any other European city; London is the place which " receives more than any other place, and pays more " than any other place, and therefore it is the natural " clearing house." Paris has lost its exchange business with its currency of hard money; its political fall has also, no doubt, a great deal to do with this disappearance of Paris as a bill centre; but dealers in bills and other forms of international remittances are inclined to attribute its loss of this kind of business to more than political accidents or financial misfortunes. They say that "arbitrage" business in bills can no longer be conducted in Paris, mainly because of the heavy stamp duties which the French Government have imposed on transactions of the kind. Arbitrage business is conducted much in this manner: Dutch bills, say, were required by Paris firms for purpose of remittance to Holland; these bills could be supplied from London or other bill markets when there were no bills in Paris drawn on Holland direct; Paris could pick up the surplus from other markets and so supply its own want of bills, and as the balances of many foreign money dealers lay in Paris, the whole thing was arranged by "clearing-house" process, a simple transfer of credits from one account to another being nearly all that was required, and with very small cost. But when the war came international balances were no

longer kept in Paris; there was a stampede of money dealers to London, and the imposition of stamp duties on foreign bill transactions in France was found to be an effectual preventive of a return of Paris to its position as a centre of remunerative trade in bills. Reflective men who know the peculiarities of a trade of this kind say that the stamp duties have thus indirectly cost the French treasury more than it has received directly from the duties themselves. Various attempts have been made to restore an unimpeded money traffic with Paris, among which a device was instituted for evading the duties by means of *délégations.* When a firm in London wished a financial house in Paris to transfer money to another account, a note known as a *délégation* was sent to the Paris house asking the latter to give so-and-so a specific sum of money for which the writer would be responsible. This was merely a cheque in disguise, and the French Government immediately repressed the system by making it totally illegal, cheques continuing to bear a twopenny stamp—not a ruinous tax, but quite sufficient, together with the minute and vexatious prescriptions accompanying it, to cramp traffic profitable to the whole country. The lesson from this to governments and financial ministers should be plain.

In recent years a practice has increased of settling indebtedness between places by the Transfer of Stocks which are dealt in indiscriminately on the bourses of such places. It is found that a merchant in London owing money in Paris, instead of going on 'Change to buy a bill on that city, may accomplish the same object by buying, say Lombardo-Venetian Railway shares, which are immediately realisable on the Paris Bourse; and the sale in Paris may take place, by telegraph, almost simultaneously with the purchase in London,

so that the result of the transaction as regards its cost is at once known to the remitter. This method of settling debts is much more convenient than sending money to and fro, and is often more so than remitting bills of exchange. It is said that it removes irregularities in the exchanges, but it is hardly possible to doubt that the facilities for transferring stock from one country to another increase the international trade movement—the imports or exports—at particular times, so intensifying irregularities of the kind, and even increasing the flow of bullion between countries when a remittance of bills coincides with a remittance of stocks. The coincidence seldom occurs, perhaps, but it is quite impossible to obtain any accurate note of the amount of stock passing between places, and it can only be conjectured that this latter mode of settling debts does, as a rule, tend to remedy inequalities in the trade balance due from one place to another; in times of monetary panic only does it coincide with the movement of bills, for at such times nearly every one wants real money at the panic-stricken locality, every one who finds it convenient sends abroad stock as well as bills in order to raise money. But in ordinary times the inequalities of the exchanges, the surplus indebtedness of one place to another, can be compensated by the remittance of stock, and there will consequently be the less demand for bills if the rate of exchange is particularly unfavourable.

The state of the exchanges will also affect produce, which will be sold to suit the convenience of those who wish to send money to a certain place. It may happen that a New York firm wishes to pay money immediately in England, but cannot find a suitable bill; the firm in question does not send gold, which is sometimes difficult to procure in America and which would take a fortnight

to remit, but telegraphs to Liverpool ordering the sale of cotton "to arrive," raises the money there by that means, pays its debt in England virtually by shipping cotton instead of money. And it will thus be seen that the ways of making international remittances are many, and that bills are not always the most profitable form.

The greater of the fluctuations in the exchanges within recent years have been in connection with changes in the currency of various foreign countries, panics on our own money markets, and the disturbance to trade resulting in wars, besides the demand for coin necessary to fill a war chest and carry on operations. Of these causes of fluctuations we may briefly call to mind the money panic of 1866, in which year our imports of precious metal exceeded thirty-four millions, comparing with less than twenty-one and a half millions in the preceding year. Our rate of interest for money then ran up so high that money came pouring in from nearly all countries. France stopped its trade speculations to send us an extra sum of four millions; the United States laid aside its agricultural implements, checked its budding manufactures, embarked no more capital in railway extensions for the time, and swept up money from all sides to send us over ten millions; gold was hurried hither from Australia, and sucked away from the Continent; silver even streamed in from India and the East, such was the strain put upon the commerce of all the world by the disorganisation in our credit here. Then, in 1870, there was the war between France and Germany, which spread confusion in all international transactions, caused money to be either hidden in or exported from France, glutted surrounding countries at the time, and afterwards caused a fresh congestion when the war was concluded and trade sprang up anew. Subsequently the

great disturbing force has been the continued demand for remittance to Germany, produced by that country absorbing gold, and on the other side an efflux of silver from Germany, depreciating its value as metal and disturbing the market value of every commodity expressed in it, bills among the rest. The following notes indicate the fluctuations which the market value of bills, as a means of remittance, is subject to, the recent events in Germany including most of the major influences already mentioned as bearing on that market. From 1874 to 1878 there have been years of dull trade and reaction from the previous commercial activity and good credit in all countries. Capital was "brought home" to England, and the Exchanges were consequently for the most part steadily favourable to London.

Fluctuations in the rate of Exchange in Berlin on London.

1869. **6·23⅛.**—This was a favourable rate to London, so much so that bullion came from Germany in that year to the extent of £422,000, and our exports thither were much less than usual.

1871. **6·21¾.**—The end of the war brought with it a great revival of trade in Germany, which absorbed the money coming into the country in payment of the French indemnity; and, moreover, gold was to be adopted as the standard currency of United Germany—a change which necessitated coinage to the extent of many millions sterling. As Germany had very little gold within the country, that lying in foreign markets was bought up. London was the most convenient market, with the largest supply of gold too; so that gold left us in large masses to be coined in Germany. £8,488,000 in gold was exported in that year to Germany.

1872. 6·21⅛.—The same tendency continued, Germany bidding higher for gold than England. The exports to that empire amounted to £8,152,000 in 1872.

1873. 6·20⅜.—Further amounts of gold were exported, the German Government realising its bills and other securities lying in London and taking the proceeds in gold as it wanted that metal for coinage purposes. The panic in America in the autumn of that year had, however, the effect of raising the value of money here. In the last two months of that year Germany only took £22,000 in gold from this market. Our total exports of gold thither still amounted to £7,263,000 for the year.

1874. 6·23¼.—Great depression of trade in Germany was new apparent, the previous inflation having suddenly ceased. Numerous failures had occurred, transactions were impeded, and prices had fallen in Germany, the result being that money was in less demand and the exchange became more favourable to London. The average rate of that year was 6·22⅜, and our export of gold to Germany only amounted to £132,000. The Government announced also that it would cease to coin gold rapidly, and would coin new silver instead, which was wise, for as soon as it imported too much gold for coinage it would have been re-exported, under the natural operation of the exchange in its position at the time, to pay trade debts, &c.

Fluctuations in the Money Market.

In tracing the variations in the value of money loans we shall see that a certain amount of interest can nearly always be obtained by lenders. The Bank of England never makes advances on bills or other securities at less than 2 per cent. per annum discount. Other lenders in

the London money market compete with one another to such an extent that their charges sometimes go as low as 1 per cent. per annum on first-class security, which would seem to promise barely sufficient profit to defray the expense of keeping up an establishment in the City; but *some* rate is nearly always obtainable. Occasionally the Bank finds it necessary to charge 10 or even 12 per cent. in special cases, not so much for the purpose of making a large profit as of discouraging borrowers, who would otherwise drain it of its cash reserve, and leave nothing in its place but some securities difficult to realise on an emergency. On giving undoubted security, therefore, one can always borrow at something between 1 and 10 per cent. per annum. On bad security the rate will reach sometimes a usurious height—the Turkish Government, for instance, having been known to raise money at 24 per cent. per annum in Constantinople. But we will not complicate the subject by considering the variations of individual credit; we will take undoubted security as the standard, and see how much and why the value of money loans will vary in the market.

Under usual circumstances the value of loans depends chiefly on the general activity of business, new or extended transactions always requiring money with which to engage in them; next, on the occasional failure of the substitutes for money which we ordinarily use to perform the same work; and next, on the state of the foreign exchanges as affecting our reserve of real money. These influences will be found apparent on many occasions; and it may be mentioned in connection with the bearing of our cash reserve (already shown to lie solely in the Bank of England) on the value of loans, that a good gold reserve makes lenders ready to *lend* money,

and a good state of credit makes it easy to *borrow;* but when the reserve becomes low, money is precious, and credit is not so easily given. Good credit and a large gold reserve seldom come together, and never stay together long; for good credit soon stimulates enterprise and borrowing, and so reduces the reserve. In a time of large reserves, too, money is apt to be lent on bad securities; when the reaction comes, credit is found to have been undermined, and a panic generally results. Then for a long time reserves are large and credit is bad. And, again, when the reserve is largely augmented, say by gold discoveries in Australia for instance, sudden new enterprise is stimulated, speculations become hazardous, markets treacherous, and credit soon deteriorated.

The effect of war on the money market we must look at as an accident, and not as susceptible of being dogmatised about. It is believed that the approach of the war of 1866 contributed in some degree to the great panic of that year, and the outbreak of the war of 1870, though it happened at a time when money was abundant, forced up the Bank rate from 3 to 6 per cent. in a fortnight, and caused for a time no small excitement. In 1875 some alarming telegrams from Berlin, said a writer on Trade and Finance at the time, checked all disposition to enter into contracts extending over a long period. "In other words, the revival of alarmist "rumours is a distinct hindrance to any revival of "trade which might otherwise be at hand. Unless "enterprises of magnitude have time for development "they will not be commenced, and thus the existence "of disquieting rumours like those now agitating every "European capital deprives the capitalist of that assu"rance of time for development which is necessary to "tempt him into a great investment. An undertaking

"which would pay with money at 3 or 4 per cent. "might not answer at all if an emergency should arise "in which twice or thrice these rates had to be paid, "and perhaps for a moment the market was so dis- "turbed that it became, not a question of rates, but "a question of ruinous sacrifices in order to meet "engagements."

It may be wondered at that any accident of the kind should have so sudden and great an effect, but the system in the market for loans is such as to produce fear and hasty action among lenders on the occurrence of even alarmist rumours without the reality or commencement of disaster. When a great failure occurs, bankers hasten to fortify themselves against a possible panic by reducing their loans and holding a large reserve of ready cash, and take great credit to themselves for having been so prudent. But the very contraction of loans and scarcity of real money so induced swell the seeds of the growing panic; reserves are accumulated, but are often insufficient when accumulated with such hurry, for it is seen outside that there is something wrong, and dismay will the sooner spread.

The inference is, that holders of money over-lend themselves in ordinary times and seek to make up for the indiscretion by pinching their loans in times of accident or apprehension, that banks and bill brokers lend money without discrimination or fear when credit is undisturbed, but sometimes pre-induce much disaster by suddenly discontinuing their loans. A whole book, and a very clever one, has been written by Mr. Bagehot to show that the proper preventive of sudden terrors is to keep a large cash reserve at the Bank of England for the purpose of lending at times when nobody else will lend. But, though it is unfortunately less practical to insist

upon, the great preventive of sudden stoppages in the lending machinery of our market should be care in the selection of borrowers, *not so much lending little as lending well.* This is a lesson of public importance, and these pages have been wasted if they have not impressed it on the reader's mind. When the value of money is low there is all the more inducement—there is almost a necessity—for lenders to make larger loans; it is necessary to increase the connection with borrowers, and there is a great temptation to lend to those who are ready to give the highest interest for money—in other words, inferior borrowers. If a joint-stock bank lends carefully at a moderate rate of interest, some shareholders will get up at the half-yearly meeting and say, as one lately said, that "there was upwards of "£18,000,000 employed, and for that there was a profit "of £177,000, which was not 1 per cent. By looking "at other institutions they would see that such a return "was very poor." Thus, the bank managers will be urged to increase their temporarily profitable business, and to lose sight of sound principles. If the bank allows interest on the money it lends, it will be the more ready to advance at a high rate in order to show a profit; and as these two unfortunate tendencies, viz., of paying large dividends to shareholders and of allowing interest on deposits, are gaining ground to the exclusion of sounder modes of conducting the business of banking, it would seem highly necessary for the depositing public to consider—1st, who it is that ultimately lends their money, and, 2nd, the principles on which it is lent. Bill discounters, as the ultimate lenders, would then be subject to some of the attention which the importance of their functions makes due, but which they at present escape.

History of Fluctuations.

1844. Sept. 14. 2½ p. c.—Trade had been dull, and money difficult to employ. The rate at which the Bank of England could lend money on the security of good bills had consequently fallen to 2½ per cent., the lowest point ever reached up to that time.

1845. Nov. 1. 3½ p. c.—An immense number of new railway schemes had begun to take up the spare money lying in the market. Money was raked up from every corner to pay the instalments due on railway shares. There was a sudden appearance of activity in business; in this case the speculative business of railway stock jobbing.

1846. Aug. 29. 3 p. c.—The temporary activity settled down, however, and the steady business of the country did not raise a demand sufficient to retain the value of money at its former point.

1847. Jan. 23. 4 p. c.—Gold was flowing away from the country in order to pay for large imports of corn; the Bank of France was in difficulties, and called for assistance: the American and Russian exchanges were also adverse. Money, in short, was wanted abroad, and at home the railway mania had resulted in intermittent demands on the money market to pay calls on the shares and meet expenses incidental to the development of the lines.

1847. Oct. 23. 8 p. c. — The value of money had steadily risen up to this point, various influences combining to send money out of the country, so forming a drain on our reserve of hard cash.

1848. Oct. 23. 3 p. c.—But that high rate at which money was bidden for in London resulted in an immediate turn in affairs. No foreign market could outbid

us, and foreign markets hastened to send hither all the money they could spare in order to obtain so profitable an interest. This influence was so strong that a bad harvest here showed none of its usual effects in sending money abroad to pay for the foreign wheat we were compelled to buy.

1849. Nov. 10. 2½ p. c.—This further fall was partly a continuance of the reaction which invariably follows a very high rate of interest; but it was also due to troubles on the Continent, Louis Phillippe having been swept out of France. and business in most of the chief European cities suffering partial stoppage resulting from the fears of general war. At home also the railway troubles culminated in a crisis, when dividends fell, shares were sold, excitement was wild, and large losses were felt all over the country. These losses led to failures, the failures to discredit, and business was checked at home as well as abroad. All these troubles depressed trade (they did not excite it to even momentary activity), and so diminished the demand for and value of money. Trade was, in fact, so dull that no event seemed at the time capable of stirring up any pressure for money loans. Loans for Russia and Denmark were brought out here, but took no money from us which we could not easily spare; disturbance occurred in French, Greek, and home politics, but again no effect was discernible in our money market. Something which contributed to the dulness, however, was a movement in Holland to demonetise gold, the large discoveries of that metal leading to an absurd fear in the Dutch Government that it was becoming permanently and excessively plentiful and no longer suitable as a steady standard of value. Gold accordingly was tending to flow from thence hither.

1850. Dec. 21. 3 p. c.—Money did not immediately become cheaper, however. The discoveries in California had less sudden effect than had been anticipated, and France took the opportunity to purchase gold, when cheap, in exchange for its silver coinage.

1852. June 26. 2 p. c.—The gold in the Bank of England has steadily swelled, probably as a result of the new accumulations from New South Wales as well as California; and the value of money was further depressed by this increase in our reserve supply.

1853. June 4. 3½ p. c.—Then a reaction took place. The gold discoveries were found to have been most important elements in a revival of trade which the abundance of money had stimulated. Their first effects were seen in a great exodus of labourers to Australia; the wages of labour rose here; in consequence the prices of manufactured articles rose; ships were built to convey emigrants and their necessaries outwards, and to bring home their produce; imports and exports alike swelled in quantity and value, and the activity spread through general trade. Foreign as well as home trade was also stimulated in like manner, and the effect on our whole exports soon became apparent. Our manufacfacturers were not only bought up greedily by foreign customers, and so the internal activity continued and increased, but the commercial activity abroad had a more direct effect on our money market; it drew gold away. In "Tooke's History of Prices" the remark occurs that the preceding low charge for the loan of money helped this great reaction. "In what degree the "Bank, by the progressive reduction of its minimum to "2 per cent. in April, 1852, aggravated the tendency "which then existed to an excess of banking accommo-"dation is a point that does not admit of being dis-

"tinctly stated. But that the measures did impart "considerable stimulus cannot be doubted. Nor, "further, can there be any doubt that this mischievous "influence of the measures of the Bank lay to a large "extent at the bottom of the unsoundness of credit "and the inordinate extension of speculative enter-"prise" which were manifested.

1854. May 6. 5 p. c.—This unsoundness culminated in a series of disastrous failures in trade. Credit was enfeebled, and the upshot was to throw a great demand on our reserve of real money, for the current substitutes for it were in many cases no longer of use; payments had to be made in hard cash.

1854. July 29. 5 p. c.—There was no rapid reaction, for trade had derived great and lasting activity from the gold discoveries; they had taken trade into new quarters where banking facilities did not exist for the economy of money; they had moreover caused a general rise of prices, which, of course, made more money necessary in all transactions. Gold, too, went abroad to pay for wheat, our own harvest being seriously deficient. The war with Russia began, and war always absorbs money, however much it may check the demand by stopping trade in the quarter affected. Add to this a very high value of money all over the Continent, and some heavy failures in America and of houses connected with the Russian trade, and a continued dearness of money in the market is not to be wondered at. The great compensating influence for all these troubles was the sustained influx of gold from Australia, the discoveries in California being also sufficient to supply the panic demand for coin in American trade circles at the time. Failures and discredit in the United States were described as excessive, many banks suspending pay-

ment, while jobbery was at so disreputable a height that nobody was trusted in a position of responsibility.

1855. June 16. 3½ p. c.—Money was less wanted in foreign trade; war in the interior of China checked our commerce in that quarter, and the Russian struggle also continued. In Australia and America, affairs were no better, for failures continued to obstruct business, and a reaction had come after the great impulse given by the first blush of the gold discoveries.

1855. Oct. 20. 6 to 7 p. c.—The gold in the Bank of England had decreased from eighteen millions to eleven in a few months, the previous low charge for interest by the Bank having allowed of a drain, and so caused a rebound to the high point now reached. The drain appeared to be purely owing to a trade demand, for all the recent troubles had not sufficed to more than damp the vitality of commerce with the quarters newly opened up.

1856. June 28. 4½ p. c.—Slowly the Bank rate eased downwards a little, only to rise again immediately on the removal of the one check to foreign trade which ended with the Black Sea treaty with Russia and the conclusion of the war.

1857. Nov. 11. 10 p. c.—After a long period of dear money a 10 per cent. Bank rate was reached; and this meant panic. The long-continued and feverish excitement in American trade circles was the main cause of the crisis, but a flow of silver to India on the outbreak of the Mutiny had drained Europe of that metal, and gold was consequently in increased demand to supply its place. All over the Continent money was also rendered dear by the universal impulse which trade had received, and the rate of interest charged by the Bank of France reached the extreme point of 6½ per cent. per annum. The Western

Bank of Scotland and the City of Glasgow Bank failed under circumstances which have in part repeated themselves more recently; the banks had lent themselves to overtrading, and a breath of suspicion found them unable to stand. Then came the American collapse, many details of which have since repeated themselves in the panic of 1873; the Bank of France further raised its rate to 7½ per cent.; great stringency was felt in all Continental money markets; silver was still being taken to the East, and the United States found its annual supply of new gold all too small for the requirements of panic-struck traders in that country. The result of all this here was a suspension of the Bank Act of 1844, and the Bank of England was allowed to issue more notes than its prescribed limit without necessity of holding gold against them. The effect was as great as if a new supply of real money had been brought forward for use. The crisis passed off after an illegal issue of notes to the extent of two millions; nevertheless no fear for the security of bank-notes was raised, the panic having only extended so far as to make people afraid of such inferior substitutes for money as bills, private cheques, and the promises to pay of the minor banks.

1858. Feb. 17. 3 p. c.—The panic had soon died away, American trade was checked, and money, being no longer required on that side of the Atlantic to so great an extent as before, flowed back to Europe.

1858. Dec. 15. 2½ p. c.—A large sum of gold had gone abroad to pay for increased imports of food, but trade had been deadened so much by the recent interruption of business that money was not made at all appreciably scarcer by the efflux.

1859. May 11. 4½ p. c.—The war between France and Austria, and alarming rumours of a general conflict

in Europe, had renewed panic and discredit in some quarters, principally the Stock Exchange, where many failures occurred. Six millions had been raised by Austria, and a loan of twenty millions by France followed, much of the money being in each case subscribed in this money market.

1860. April 18. 5 p. c.—Gold was taken in large quantities to France. That country had entered into a commercial treaty with this (which has been justly regarded as a great step in favour of free trade, and one of the best political strokes of the late Emperor Napoleon).

1861. Feb. 13. 8 p. c.—A money crisis in America took gold from us, a deficient harvest here and an enhanced price of cotton adding to the foreign drain. Much gold had gone to France, but it had not stopped in the Paris money market or in the Bank of France; it had been apparently absorbed within the country in connection with all sorts of imperial works.

1862. July 30. 2 p. c.—The war of secession had broken out in America, and nearly all trade intercourse was cut off between that country and Europe. But it was a long time before the depression so caused told on the value of money, because the war had at the same time occasioned a great drain of gold from this side, which made money scarce, although our trade fell off miserably. There was much commercial depression also on the Continent.

1863. Dec. 9. 8 p. c.—This great rise was entirely brought about by the unfavourable state of the exchanges. India had been suddenly called upon to furnish a supply of cotton, and was paid a high price for it; but India was not a country to which money could be sent by a mere bundle of bills; hard cash had

to be sent, and the silver which India absorbed took much of the supply from the Bank of France. This vacuum had to be filled by gold, and England was accordingly drained of that metal. Notwithstanding the dulness of our trade, notwithstanding the desolation in Lancashire, notwithstanding also a good harvest, yet gold flowed out of the country to such an extent as to cramp the lending capacity of the banks to a serious extent. Many foreign loans, which were put forward when the previous low rate existed, had contributed to produce the tightness.

1864. March 9. 6 p. c.—For a short time it seemed that the 8 per cent. rate had sufficed to reattract money from abroad.

1864. Sept. 19. 9 p. c.—But the drain of silver and gold had been too severe, although the annual supply of gold from America had not been cut off, but increased as the paper money drove it out of circulation. Our trade within the country and our exports had alike begun to increase, the activity and multiplication of transactions of course requiring more money to work upon.

1865. June 21. 3 p. c.—This was a treacherous reaction, which did not last long, for

1865. Oct. 18. 7 p. c.—Silver was still being sucked up by India in return for its cotton supply when America was inaccessible. We were now in as bad a position as ever to export that metal, for the producing countries had been already drained of all their stock, and the annual supply had really shrunk. Within the country, trade of all kinds had swelled, demand for money consequently swelled too, the cessation of the American war throwing open new markets, and adding to the transactions at home and abroad.

1866. May 16. 10 p. c.—The events which had pre-

ceded the crisis which was now reached serve to show the tendency of affairs; the strain produced by an ever increasing trade without sufficient money at last ended in a sudden stoppage. England was exactly in the position of a merchant, B, with a large business, but with a small cash balance; B had bought goods of A and had sold them to C, relying on C's being able to pay before A wanted his money; but an accident occurred and C was found not to be able to pay B, so that A also remained unpaid because B had no ready cash; he had only C's payment to depend on. The specific national accident which caused the crisis of 1866 was taken to be too ready loans to railway contractors, which resulted in a lock-up of money in building lines. Finance companies had been formed whose profits were made in loans of the kind; and when the owners of the money, which had by that means been sunk and was for the time unobtainable, wanted it to pay their debts, they could not obtain it. Overend, Gurney, and Co., bankers, bill brokers, and money lenders, found themselves unable to refund the deposits previously entrusted with them, the depositors then found themselves also insolvent as a consequence; nearly everybody depended upon others for money before he could pay his own debts, and if everybody was not deceived he began to be afraid that he would be. If, at the commencement of the failures, the creditors affected had been able to say—"C has not "paid me, but I have a reserve of cash with which I can, "say, pay A;" or if, in other words, Overend's had been able to pay out of their own funds what they could not raise from their debtors, the crisis might not have occurred. But Overend's were utterly insolvent, they could neither pay nor borrow; and the alarm immediately spread through all the creditors, direct and

indirect, large and small, of that disastrously ill-managed discount house. The spread of the alarm was increased by tho low state of the Bank reserve of cash legally available; it had fallen to £415,410 on May 30. It was then open to doubt whether the best firms in England could pay their debts in money if called upon, for nowhere was real money obtainable, bills would be hardly taken at all for any consideration, cheques were not often taken freely, and then were hurried into a bank in order to obtain the money for them; all substitutes for money except bank-notes were more or less valueless, while nearly all borrowers were mistrusted, and few persons had money to lend. The Government then allowed the Bank to create and issue fresh notes, which served the purpose of money, and immediately after that issue it was found that money was no longer wanted. Trade had been checked, transactions closed in many quarters, and the money which had been hoarded in case of emergency began to come out again.

1867. July 31. 2 p. c.—As money came forward more freely the rate in the discount market fell, the depression of trade working in a twofold manner; the contraction of business operations and payments allowed more money to come on the market, the supply of bills being reduced at the same time by the same cause, so that instead of merchants seeking to have their bills discounted the tables had become turned, and lenders of money sought good bills in which to invest. Moreover, prices in the wholesale trades had fallen so generally and considerably, as a result of the contracted markets which the discredit had brought about, that money went farther in settling the transactions which took place. Notwithstanding the introduction of various loans to foreign countries and the failure of a note-

issuing bank at Liverpool, money was extremely abundant, owing to the great contraction of business within the country.

1869. May 14. 2½ p. c.—It was thus fully three years after the great discredit of 1866 that the money market showed the effects of a gradually extending trade, the rise in this case resulting, however, rather from withdrawals of money from hence in connection with foreign loans than from revival of business internally.

1870. Aug. 10. 6 p. c.—The news of the outbreak of war between Germany and France unsettled all markets, a panic occurring on the Stock Exchange, and the demand for money, as usual in times of excited business, increasing rapidly.

1871. July 19. 2 p. c.—The gold in the Bank of England reached the unprecedentedly large sum of over twenty-seven millions, the chief cause being an influx from France on the violent outbreak of Communism. But besides that of safety there was an incentive to bring gold hither because of the suspension of specie payments by the Bank of France, the latter being one reason why Paris could no longer perform the office of "clear- "ing house" for the international commercial debts. London became instead the main depôt for money best adapted for settling payments. Paris bankers removed hither or established branches here, bringing their cash reserves with them.

Then began a period in the history of the London money market which has been called abnormal, and which is certainly quite unprecedented. Instead of the old run of predominant influences bearing upon it—the demands of trade, the state of credit, the value of our harvest, the state of the exchanges, and especially the amount of foreign imported wheat to be paid for—new influences of

a paramount character have hidden and dwarfed the old to subsidiary dimensions. The earlier of these new causes of disturbance has been the war indemnity paid from France to Germany. In the *first* place it made France so poor that the nation could no longer afford a metallic currency. France paid all the metal available away to Germany, and contented herself with paper notes to supply the void; and this led to London bearing the brunt of all foreign demand for coin, for there was no other money market worthy of the name. *Second*, London being the place where international debts could be most easily settled, the huge instalments of the indemnity necessitated preliminary scraping together of money here at certain times, to be transferred in lump sums to the credit of Germany; and though of course it does not follow that anything but a nominal transfer in books took place, yet there were inevitably a number of financial arrangements at the time necessary in handing over millions of property from one side in a form acceptable to the other. The French could not say to the German Government, "We have handed you securities "which you will realise to the value of our debt to you, "and we have no more to do with the transaction," for the securities might be unacceptable and not realise the correct amount; and therefore the German Government would say substantially, "We have nothing to do with "your investments, you must sell them yourselves and "put the proceeds to our credit; we will invest as we "think proper." Besides actual cash, the German Government took nothing but bills, most of which were payable in London. Thus it was that the indemnity payments were always surrounded by innumerable sales and purchases, and exchanges from one form of investment into another, the whole multiplying transactions

and inevitably causing fluctuations in the demand for money at odd times. *Third*, and chief, was the influence of the gold absorption in Germany for coinage purposes. That country took the opportunity which its sudden new wealth offered to dispense with its old confused currency of variously valued silver pieces and bank-notes, and resolved to make gold the standard of price, retaining silver only for fractional currency and notes for large transactions, much as in England. This proceeding has necessitated the coinage of some £80,000,000 worth of new gold, most of which has been abstracted from this market at times quite irrespective of our ability to spare it conveniently.

1871. Oct. 18. 5 p. c.—The instalments coming due of the French war indemnity, payments were largely paid over to Germany by means of bills on London; as these bills matured, a great sum of money was at the disposal of the German Government, and the latter had begun to take gold away from London for coinage purposes. At the time few could understand what it was that caused the Bank of England to so suddenly raise its rate of discount as it did from 2 to 5 per cent. in less than a month. But the Bank had taken alarm; it found gold steadily going away to Germany, and was obliged to reduce its lending business in case it should lose more of its reserve than it could afford. Outside lenders on their side also found the situation new and puzzling; the banks had large deposits which they wanted to lend, but durst not because the sudden rise in the Bank rate looked like the preliminary to a money panic; rather than lend they fortified themselves by borrowing of the Bank in many cases. The usual autumn internal demand for money concurred too with the foreign drain.

1871. Dec. 20. 3 p. c.—The increased value of money here had soon turned the exchanges in our favour and the Bank regained from elsewhere as much gold as had been taken from it to Germany. The panic feeling had subsided in the general money market, and rates of discount outside the Bank were charged only 3½ per cent. when the Bank rate was at 5. It was some time, however, before the latter felt justified in returning to a 3 per cent. rate, although its lending business had in the meanwhile fallen off because of the comparatively high interest which it charged.

1872. May 8. 5 p. c. Market rate 4¾ p. c.—The gold which went to Germany had stopped there, the Berlin Government absorbing that metal for the purpose of forming a war treasure, besides preparing to change the silver currency for a gold. At home, trade demands were increasing; up to that time—

The total amount of cheques paid at the Clearing House that year was . .	£2,034,907,000
Ditto, in the preceding year . . .	1,521,387,000
Showing an increase of one-third, viz.	£513,520,000

1872. June 19. 3 p. c. Market rate 2¾ p. c.—The high rate of money had again done its work in turning the foreign exchanges in favour of London; gold was brought hither, but not the same gold which had been drawn to Germany. *That* was safe in the mints or the war chest of the German Government, and we had only put a drain upon other sources of supply, which were of course by so much less available in case of future demand. This fact came out prominently some time after.

1872. Nov. 9. 7 p. c. Market rate 7 p. c.—It had become more difficult to attract gold to supply the place

of the amounts which were from time to time withdrawn for Germany, and a high value of money was reached here before gold flowed in this direction. The usual autumn internal absorption of money within the country had added to the stringency which was necessary to prevent the reserve in the Bank from ebbing out of the country.

1873. Jan. 29. 3½ p. c. Market rate 3½ p. c.—Although the Bank had now a high reserve, yet the contingent demands on it were unknown, the German operations being secret, but certainly large. The Bank had, however, a great mass of deposits on its hands consequent on Mr. Lowe's method of collecting the bulk of the Revenue in that quarter of the year, and the Bank sought to encourage discount business regardless of the almost certain prospect of a heavy demand for gold for Germany before long. The charge in the open market for discounting six months' bills was higher than for three months' quotation above quoted, so indicating the expectation in the market of money growing dearer.

1873. June 4. 7 p. c. Market rate 6¾ p. c.—The same thing occurred as seven months previously, and it is needless to recapitulate; the only essential change was that gold was always becoming scarcer and more difficult to attract to this market from foreign sources of supply.

1873. Aug. 20 3 p. c. Market rate 3 p. c. and upwards.—The Bank had not followed the market rate; it had taken the initiative and gone below it. Less strain had lately been felt here by German coinage absorption because the Bank of France had paid some of its gold to Berlin direct. The six months' rate of discount in this market was at 4 per cent., again indicating an expectation of coming stringency.

1873. Nov. 7. 9 p.c. Market rate 9 p.c.—The American money panic of 1873 had occurred. Gold no longer went to Germany, but to the United States, where the paper currency, unexpanding and insufficient, had to be supplemented by coin, so great was the pressure for ready money in that country. American trade had been outgrowing the proportion of banking accommodation which was necessary to its prosperity, the banks could no longer make advances because their legal limits had been already reached or overstepped; this led to some large failures, which in turn spread insolvency among their creditors, created alarm, and destroyed the credit which had enabled trade to go on long without feeling the want of money. The New York banks, which keep the cash reserves of all other banks in the States, just as the Bank of England keeps the whole cash reserve of our banking community in England, found themselves obliged to curtail their loans in September because of the insufficient supply of legal tenders which they possessed. The following figures mark the course of affairs after that date, the loans reaching the lowest point in November and not fully recovering until the April following, when the legal tender reserve had augmented:—

Returns of New York City Banks.

	July 5, 1873.	Nov. 22, 1873.	April 4, 1874.
Loans	$286,905,800	$248,067,300	$291,113,700
Specie	32,551,400	17,568,700	24,044,600
Legal tenders	48,168,000	30,899,800	56,983,100
Deposits	232,369,400	167,967,200	237,491,100
Circulation	27,276,200	27,299,800	26,804,600

1874. June 17. 2½ p.c. Market rate 2¼ p. c.—The 9 per cent. rate in the preceding November had speedily done its work, and had attracted gold hither before panic

was taken at the lowness of the Bank reserve. Trade generally was crippled and dull as a result of the great depression in America, Austria, and other parts of the world, which became apparent after the previous inflation had ceased. Had it not been for the absorption of gold in Germany, and an accumulation of specie in the Bank of France preparatory to resuming specie payments, the rate of discount would have long since been as low as 2 per cent.

1874. Dec. 2. 6 p. c. Market rate $5\frac{1}{2}$ p. c.—But the causes at last told on our money market. A large demand always takes money into the country in the autumn, and this drain, coinciding with an outside drain of bullion, reduced the reserve in the Bank of England to such an extent that it raised its rate of discount to 6 per cent. Not only did it thus curtail its own loans, but it "borrowed "on stock" in the open markets, drained the latter of the excess supply, and so managed to raise the entire value of money in London and turn the exchanges. Gold, in effect, immediately began to return from Paris, whither it had previously gone in search of more profitable employment when our market was so cheap, and there were also some sums of newly coined gold dribbling in from Germany.

1875. Aug. 11. 2 p. c. Market rate $1\frac{1}{2}$ to $1\frac{3}{4}$ p. c.—The Bank rate never goes below 2 per cent., but money was in reality of even less value, as shown by the market rate. Our own trade had fallen away since 1873, the Collie failures had just occurred here, and abroad there was also little commercial demand for money. The German Government had taken to coining silver instead of gold, which was a slower process, and of no direct influence whatever on our money market. Something like a normal state of things was again reached for a time.

1875. Oct. 20. 4. p. c. Market rate 3½ p. c.—The usual autumn drain upon its reserve of cash had caused the Bank to raise its rate; but this time the bullion drain was internal, and therefore not of so disturbing a character as the foreign drain from which so many stringencies had resulted.

1876. Jan. 5. 5 p. c. Market rate 3⅝ p. c.—The cause of the new rise was again a bullion drain, this time to France. The British Government had bought for four millions certain shares in the Suez Canal, and the special cause of the bullion drain was that money had to be sent from London in order to pay for those shares.

1876. April 19. 2 p. c. Market rate 1½ p. c.—With the fall to a 2 per cent. Bank rate began a long period of stagnation in business such as has invariably succeeded culminations of activity. The previous culminating period had not been marked by a crash of credit equal to what had been experienced in 1857 and again in 1866; there had been, on the contrary, a slowly acting check upon overtrading in the form of dear money from 1873 to 1875, and the crash had been prevented. Nevertheless, the after-effect was the same as those which succeeded the crises of the two previous decades; money, after having been in much demand all over the world, had come to be in little demand; credit which had been good was now bad; enterprise had lost its spirit, just as in the days which followed culminating periods of confidence and activity.

In September, 1876, the unemployed cash in the Bank of England rose to the highest amount on record before or since. The market rate of discount was then below 1 per cent. A new element then began to operate by degrees in the money market. This was the accu-

mulation of gold by the United States Government in preparation for a return to specie payments. Not, however, until the summer of 1878 did the cessation of supplies of gold from America tell so much upon the stock in London that (August 7, 1878) the unemployed cash reserve in the Bank of England had at last fallen below nine millions and the Bank rate was raised to 5 per cent., which attracted gold from abroad. The movement was neither too soon nor too sharp, for the Glasgow Bank crash occurred on the 1st of October following, and the money market suffered a spasm, the intensity of which would have been deepened had not the cash reserve been protected beforehand.

CHAPTER V.

STOCKS AND OTHER PUBLIC SECURITIES.

When the savings of the country, the funds in the hands of banking, assurance, and other money-holding institutions, the deposits of foreign individuals, corporations, &c., in our money market grow so large that there is no suitable means of employing them in private trade, then money is lent to foreign governments and to public companies, with very great advantage in most cases both to borrowers and lenders. There are times when foreign countries desire loans more than at others, and there are times when money is sought more largely for the formation or extension of trading companies than at others. On the other hand, there are fluctuations in the supply of money ready to be lent, there are times of distrust in which few care to lend the money which they have, and also periods of recklessness in which the demand for securities is extravagant. Here we have many elements of disturbance in the value of the securities offered for sale, and, all things considered, it is astonishing that their prices in the market do not vary to a wide extent. But public securities—the certificates of debt, that is, which are given by public borrowers to their creditors, the investing public—are bought and sold on the Stock Exchange with so keen an appreciation of their ultimate value as well as their immediate market price that when a fluctuation in demand takes place it is often found that its effect has been fully

anticipated. In the words of the market it has been "discounted," just as prospective fluctuations in the value of money are allowed for in discounting private securities, viz., bills.

Our Stock Exchange, compared with Continental *bourses*, is the English constitution over again placed beside foreign forms of government. A Frenchman looks with envy on the freedom of contract, the solidity of prices, the bulk of transactions, which distinguish the House in Throgmorton Street, and ascribes the financial catastrophes which occur on the *Bourse* to an absence of conditions of liberty, much as the political street riots of Paris were ascribed to repression and over-legislation; and yet the Stock Exchange has rules for its own members, and it is exclusive, like English society —it is almost "insular"—the benefit of this exclusiveness being that a crowd of unknown little operators are kept out of the pale; for the shoal of minnows which infest the Paris Bourse, making each turn of the tide more violent, and always swelling the train of some speculating Triton, is continually subject to frights. Having but the one desire of buying at a low and selling at a higher price, they add to the oscillation of prices, just as loose ballast will add to the roll of a vessel; they aggravate a panic if panic symptoms set in; they carry confidence to an absurd point when prices are moving favourably; but when something unforeseen occurs, and prices give a bound in an adverse direction, then are these minnows left high and dry on the shore of insolvency. And no doubt the Stock Exchange escapes much inconvenience of the kind by closing its doors to the general public, and taking precautions that no unknown dealer shall be allowed to cover himself to excess with liabilities to pay or deliver stock, that in imitation of

our rigid social rules a formal introduction shall be necessary in order to guarantee respectability. The result is that failures seldom occur in the House; a member has so much to lose if he be deprived of his right of entrance that he forbears to run risks; he will in most cases neither over-speculate himself nor allow others to deal with him beyond their means if he can possibly prevent it.

The mode of conducting business on the Stock Exchange is simple. There are two classes of members, dealers and brokers. A broker receives an order from one of his clients among the general public to sell or buy a certain security; he goes to a dealer in whom he has confidence and asks him the price at which he will deal in that security. The dealer names two prices, say 68-69; he is ready to buy of the broker at the lower or sell to him at the higher figure, and he is bound to adhere to his terms if he once quotes them; the broker then sells or buys in the name of his client, pays for or delivers the stock, sees that the transfer is legal and complete, and pockets his fee for his trouble. A broker in theory runs no risk, but in practice he must be very cautious; for if he acts for an insolvent client he must pay up himself or lose his reputation and connection in the House, and if he sells to an insolvent dealer he will lose his connection outside. The members find it to their mutual advantage to be careful with whom they deal, and to be upright in their own dealings. The system perhaps has defects which spring out of this very high organisation, the public trusting too much to the judgment of members whom they directly employ or whose dealings they watch. In reality the organisation, the discipline, the caution in sifting securities and reputations, the whole government of the Stock

Exchange, is for the benefit of its members; the public must not think it always reliable from their point of view, for its rules and traditions ignore the public entirely.

The securities publicly dealt in are divided into two classes, (1) those suitable for investment, (2) those subject to wide fluctuations, and which an investor must avoid if anything of importance depends upon his power to realise at any given moment.

As soon as a stock gets the character of being steady and reliable, that steadiness is liable to increase, for bankers, assurance companies, and individuals having capital which they wish to employ safely in a form which will not entail loss or difficulty on realisation, all put their money into such securities. Consols are the model investment stocks, but have advanced to so high a point in the market that little more than 3 per cent. interest can be obtained by investing in them, but they are now not the one solid security which can be relied on; the great influence which bears on the value of Consols is war or peace, but even that cause of fluctuation has lost power in more recent years. French rentes, which are an equivalent in some sort to Consols, have attained almost an equal solidity in consequence of the faith which the mass of French investors have in them as of steady and sustaining value in the market; in consequence, also, of the regular revenue receipts of the Government, of the patriotic feeling which prompts the French press to extol them, and the population to respond by investing in them, of the improved credit of France as a borrowing nation in European money markets, and of the settled favour with which small proprietors in France continue to regard anything in which they have once trusted. As a class, securities

suitable for investment vary with the opportunities offering for the safe employment of money; when trade is good, money of the investing class will be either required by the owners of it themselves in their own business or will be lent in the discount of traders' bills, but when trade slackens, money will again seek the solid forms of investment offered by good Stock Exchange securities. Since the contraction of trade which succeeded the activity of 1871–74 money has come to the Stock Exchange for investment to an extent which can be best exemplified by showing the rise which the increased demand for sound securities has brought about in them. In a few years the following stocks gained very largely in market price, besides paying to the investor an average rate of 4 per cent. in interest :—

	July, 1874.	July, 1878.
Consols	92⅝	... 95⅜
Canada Guaranteed 4 per Cents.	104	... 109½
Metropolitan Board of Works 3½ per Cents.	96¼	... 103
French 5 per Cents	97¾	... 113¾
South-Eastern 4½ per Cent. Preference ...	103	... 112
London and North-Western 4 per Cent. Debenture Stock	103	... 106½
North-Eastern do. do.	101½	... 105½
East Indian Railway	119½	... 132
Scinde, Punjaub, &c., Railway	111½	... 117
Great Indian Peninsula 4 per Cent. Debenture Stock	96	... 101
Boston City 5 per Cents.	95	... 106
City of Toronto 6 per Cents.	103	... 109

Never was there so much money to invest as between the above two periods, and, consequently, never were the prices of "investment" securities so high. Even after the great collapse of trade in 1866 money was not so plentiful in the stock markets, and public

securities of the safe sort were not carried to so high a price. By investing in them the buyer could then obtain more interest for his money, as the following representative figures will show:—

	Interest per £100. 1867.				1878.				Reduction.		
	£	s.	d.		£	s.	d.		£	s.	d.
Consols	3	3	6	...	3	3	0	...	0	0	6
London & North-Western Railway 4 per Cent. Debenture Stock ...	4	5	1	...	3	15	1	...	0	10	0
North-Eastern Railway 4 per Cent. Debenture Stock...	4	5	1	...	3	15	10	...	0	9	3

The advantage of investing in a security at a high price and paying but a small interest is always questionable, as a high price may easily recede on a declaration of war, or some other great accident, but the difficulty is to find other equally solid securities which will pay a better interest. And in this way the excess of money seeking safe channels of investment overflows into second-rate ones.

Instead of being always borrowers, foreign countries have come to be lenders; instead of furnishing stocks to invest in, they have come to invest money in stocks; from all quarters the demand for good investments has increased, the supply decreased. Such was the rise in good securities on the Paris *Bourse* after 1873 that investors on realising two years afterwards found that they had gained, including both interest paid and increased market price on realising, *from* 10 *to over* 30 *per cent. per annum*. On the other side the inferior securities had fallen in market price even where they are not actually in default on their interest.

Good Securities quoted on the Paris Bourse.

August, 1873.	August, 1875.	Name.	Annual profit obtained per cent.
550·75	631·25	Société de dépots	31·52
690 „	998·75	Gaz parisien	29·72
645 „	742·50	Crédit industriel	26·67
645 „	647·50	Créd. lyonnais	23·94
770 „	940 „	Crédit foncier	22·99
247·50	318·75	Ville de Paris, 1871	18·88
60·75	73 „	Rente italienne	17·22

The list might be extended. There was evidently a great demand for purposes of investment, the more strong because of the general aversion to unsafe securities. Of the latter, treated in the same way and for the same period as above, external Spanish stock would have returned an annual profit per cent. of only 3·77; Turkish, 1873, 3·71; ditto, 1869, 1·49; 6 per cent. Peruvian only, 0·17; 5 per cent. Turkish actually an annual loss of 1·80. Of the South American discredited stocks we need say nothing, for the loss on them is known to have been severe. The price of inferior securities is regulated by demand and supply in common with good securities, but they are liable to more and different fluctuations of demand, and of sudden and curious gluts in the market. Holders of doubtful securities, it need hardly be said, will easily take fright if things seem adverse; a banker, for instance, who pays 2½ per cent. for the money deposited with him, and puts it into Russian stock, which will pay him 6 per cent., will be very open to alarm if he sees a prospect of war about the Eastern question, of repudiation, or of difficulties in raising new money in Russia for the purpose of paying interest on old loans; he will not only fear to lose his high dividend, but the market price of the stock

he has speculated in with borrowed money will certainly fall on such adverse reports, and he will very likely have lost more in capital than he gained in interest.

But, independent of the natural trepidation which will occasionally lead to large sales of inferior securities on the market, fluctuations in price often occur from artificial causes; a semblance of a large demand will be created by some impudent speculator or body of speculators; he or they will have previously cleared off the floating supply of some particular stock (which is generally selected as being low in price, and therefore more easy to buy up), and a few bids will then have immediately all the effect of a large demand for that particular stock. For those who make engagements to sell it, knowing that it is really of no value at all in comparison with its market price, are placed in a corner—they cannot find the stock when the time comes for them to deliver it, and are obliged to buy back in order to complete their contract at probably a very extravagant rise on the price they got by selling it to the speculator in question. This is the kind of scandal which was revealed by the Foreign Loans Committee; their report made it so clear that the market price of inferior stocks might be treacherous as a guide to their value that investors have since refused to meddle with them. It turned out, for instance, that Honduras was actually bankrupt when it thought of borrowing money in the London market; it already owed £120,000, and had not paid a penny in interest on that amount for forty years. A firm of financiers here agreed to bring out a loan, however, on receipt of a large percentage of the proceeds. Much of the stock was placed on the market after the manner just described in the case of stock not of new issue. Few investors subscribed to the

loan when formerly offered to the public, and the stock was then quietly taken to the Stock Exchange by those who wished to get rid of it; some fictitious bids were made by the person employed for that purpose, and dealers sold to him, thinking they could obtain Honduras stock for delivery at the day of settlement; but the market had no floating supply of the stock, and those who had engagements to deliver offered a high price for it in order that they might settle the transaction. Thus far there was no great harm done; the real owner of the bonds had bought what he knew no one could deliver to him, and he could have obtained a good bonus for himself in return for letting the seller off his bargain. But this was not his object; what he wanted was to place the whole of the bonds in his possession in the hands of the public, and he succeeded. Their market price began to rise as a result of the process referred to, and then the mischief of the operation began to show itself; small speculators saw the advance, and determined to share in the profit of the movement, and they, too, bought the bonds; the public saw them quoted every day at a steadily rising price, and they also invested in Honduras stock, which promised a large dividend and seemed to be in favour on the Stock Exchange. Then the issuer of the bonds found his opportunity; the traffic he had stimulated in them made an extended demand, which he was of course able and ready to supply. After a year or two the wretched little State refused to pay any more interest on its debts, and the stock fell to nothing in the market.

After the Turkish collapse—an event which seemed to be unexpected by the public, notwithstanding the previous publication of heavy deficits in the Ottoman budgets of each succeeding year, notwithstanding the

obvious inability of the Porte to meet its debt without borrowing new money, notwithstanding its unfulfilled promises of reform and its bad credit with Constantinople money lenders, who made temporary advances at over 20 per cent. per annum interest—all foreign stocks were shunned by investors with a sort of abhorrence singularly in contrast to the confiding way in which they were previously bought up. On the Stock Exchange this hastened the full development of the caution which succeeded over-confidence in previous years of "inflation." It will be seen farther on, under the head of Manufactures, that all trade had reached a time of reaction, and in the stock markets also we were weeding out bad articles from good, rejecting and discriminating on the one side, and perhaps buying up good articles in the way of securities at prices above their real value on the other. The dealers on the Stock Exchange—the jobbers and professional dabblers in stocks—were not affected adversely by the fall in the market prices of second-rate and the exorbitant rise in first-rate securities. On the contrary, they appeared to derive profit from the reactionary movements just as they had by anticipating the commencement of the general inflation years before. Scarcely a single failure occurred among the members of the Stock Exchange, and there was very good evidence that stock jobbers as a body had benefited from the scare which brought the public on to the markets with Ottoman and Egyptian securities. Not only had the "bears" drawn direct profit by anticipating sales by the public, but the "bulls" fastened on to other stocks which took the favoured place in the public estimation. Whichever way the public turn they find themselves the losers and the initiated the gainers at their expense.

"Market reasons" for the fluctuations of inferior securities, about which much vagueness of idea prevails, mean little but the relation of supply to demand in the market; market reasons, in fact, have no reason in them in many cases, the dealer being guided by experience, which intensifies and degenerates in time to an instinct as to the amount likely to be taken off or "shot on to" the market at particular times. We have already seen how a demand may be artificially stimulated, how a crowd of speculators may buy what they do not want to keep, or sell what they have not the power of delivering; but though fictitious in appearance, these transactions must ultimately have for basis the quantity of stock in which they occur. It is only when disastrous accidents happen that high market prices are, after all, a fiction, for at such times the market demand and supply are disturbed. Within the market, securities sometimes have an indisputable value, which is only fictitious in the sense that it is considerably higher than the value which those outside care to put upon it. One dealer will buy a certain stock, for instance, because he knows another wants it; *why* the latter wants it does not trouble him, nor do considerations as to its permanent value as an investment; he buys it simply for "market reasons."

If any reader should question these assertions, and should think to himself that dealers cannot be found so rash as to buy a security of whose intrinsic value they have no notion, we will recite a fact which will tend to remove such doubts. With the sprightliness of youth and the nameless instinct which impels Englishmen to play rough jokes upon their fellows, a few members of the Stock Exchange once took counsel amongst themselves, and gravely carried out the plan agreed upon.

They "invented" a security, and called it Ocean Irrigations; they selected a comparatively new member of the House to whom they sold and of whom they bought various amounts of these Ocean Irrigation shares. The object of the conspiracy, immersed in his dealings, booked the contracts pressed upon him, and on balancing the account found himself with a large gain upon his transactions in the shares. The game was kept up for some time, but it at last came out, of course, that the whole thing was a hoax. That the ocean did not need irrigation probably dawned upon the dealer at last. Other like jokes have been practised, and we need hardly point their moral, viz., that dealers do not always weigh the reasons for a rise or fall, they often follow the the market whithersoever it leads.

And the market price, as distinguished from the real value of a security, will sometimes remain for months above the price warranted by its intrinsic merits—the investment price. The market price, as we have seen, depends merely upon the engagements of dealers to deliver stock and the quantity of it available. This being understood, it is quite conceivable that contrivances of various kinds can be adopted for contracting the amount of stock afloat, as the phrase is. When the usual half-monthly settlement of accounts comes round, stocks of the speculative kind fluctuate in an odd way, the explanation generally being that somebody buys or sells in order to balance the transactions he has previously entered into. When a large quantity of stock comes forward at this settlement, the reason is probably that speculators have previously prepared the market by taking much of it away and so diminishing the market supply; when they let it out once more on the market the price of course recedes. But these are

minor fluctuations which occur without much reference to the influences which ultimately govern the intrinsic value of the securities dealt in. Sometimes more deeply-considered operations influence the market price in anticipation of an event justifying the course taken. Say, a traffic manager on a railway obtains good information beforehand as to the quantity of goods likely to be carried over his line within a week or two; the fact is made use of on the Stock Exchange to buy or sell stock in anticipation of the effect which the real traffic returns will exercise on the price of the railway stock in question; a large business has perhaps been done on the railway and the profits of the week are naturally swelled and the prospects of dividend for the shareholders brightened; the logical effect of the publication of the week's traffic would be to raise the price of the particular railway stock, but very often the result of the publication is quite different. Instead of rising on so apparently good a ground the stock may even fall, for sales take place to cover the anticipated purchases of stock previously made on speculation. Sometimes the operations are carried over a long period, stock being bought in anticipation of a great outside demand due, perhaps, six months afterwards; pending the advent of these outside purchases, however, there is, of course, a certain amount of fiction surrounding the market and keeping up the price, but it may be that the speculation is fully justified in the end. It very often occurs, however, that some accident interrupts the course of affairs, or that the hopes of the operators are altogether ill founded; a collapse is then inevitable sooner or later. Sometimes, too, bad securities paying a large dividend are bought with money borrowed at a low rate of interest, and the hope in that case is

that no accident shall occur either to prevent the regular payment of dividend or to depress the market price below what the speculator originally paid for it. An accident would in nine cases out of ten mean loss in some shape or other; perhaps the money market becomes very stiff, and instead of paying a low rate of interest the speculator pays more as the current interest for his borrowed money than he gains as dividend from the stock he has bought by that means. It is not unknown, in fact, that securities have been run up to so high a point that their return in the way of dividend is but a fraction of the interest paid for the loan of the money with which they are bought. Experience and common sense alike show that such operations finish ill, and that prices must fall after operations of the kind. Every now and again a severe fall does take place, but on the whole the speculative opinion of capitalist dealers is one which has a courage of its own, and which very often carries prices easily over a time of unforeseen adversity, such as a rise in the value of money just now alluded to. A solidity often exists in well-considered speculations sufficient to give prices steadiness during its continuance and to prevent any disastrous collapse even if unsuccessful; at the same time it often stimulates gambling of a wild nature and takes the market price of a stock far away from its value as an investment. Instead of market price being a guide to value, therefore, there is sometimes so marked a distinction between it and investment price that no investor should deal in a stock affected by speculation and the attendant gambling.

I feel strongly, and others of better experience have a like feeling, that the market for speculative securities is unfitted for investors to deal in. I point to this difference of purely "market" influences and prices from

influences bearing on investment values as the best reason of curbing the insanity of greediness which sometimes runs away with the reason of those who neither know nor try to know anything of the market they buy in. I see plainly, and am not alone in seeing, that no public legislation, consistent with the liberty of the subject, can protect ignorant dabblers in inferior securities from the effects of their wilful blindness; an attempt at anything in that direction can only end by further impelling outsiders to trust the more implicitly in market price as a guide to value. It is no doubt true that if investors are willing to buy doubtful securities it would in practice be impossible to stop them; and in theory also no legislative body can well discriminate as to what shall be bought or sold, having obviously less interest in the matter than the buyers and sellers. The latter must discriminate for themselves; they must have proper means of comparing good with bad securities, and must not merely rely on the price quoted in the market for gambling as a guide to the price in the market for investing, for the two are distinct.

English Funds.

Principal Events affecting Consols since 1800.

1800. 65½.

1801. 55¾.—A very deficient harvest was the feature of this year; wheat cost 156s. per qr. Money was consequently scarce.

1802. 69⅛.—Foreign imports of cheap wheat had brought relief since the decisive battle of Copenhagen.

1803. 54½.—War with France was renewed, and Government expenditure became very large at the time.

The price of wheat, however, continued to fall, and reached 49s. the next year.

1806. 63¾.—There had been a gradual rise up to this point as the war drew to a conclusion, checked, however, by continued bad harvests and a mania for speculative commerce.

1810. 68¼.—Prices for commodities had now risen enormously, and attracted excessive supplies of raw material. Money became scarce, and prices accordingly fell.

1813. 56⅞.—The fall to this point had come in a succession of bounds owing to the depressed state of trade since credit had collapsed. Harvests had everywhere been deficient; the wheat average had reached 155s.

1814. 70½.—This sudden revival was due to the natural elasticity of trade after the recent terrible prostration, but was also helped by the successes of our army in Spain and the opening up of intercourse with that country. The French were retreating from Russia, which was thus open also for trade purposes.

1814. 65¼.—The above circumstances then caused overtrading and loss of confidence.

1815. 56¼.—More war, on Napoleon's return from exile, increased the depression.

1818. 79⅜.—General peace, and a large import trade ensued. The gradual but rapid increase of trade at this time brought prosperity. There were more opportunities for productive labour, and more labour at liberty now that peace was general. The savings of the country largely increased, and not only did Consols rise in money value, but there was also capital to spare for investments in large foreign loans.

1820. 67⅝.—As usual in such times trade was soon overdone; much loss was occasioned by the fall in prices

which a too eager production and importation caused, and credit received a severe shock on account of the bankruptcies which ensued.

1822. $80\frac{3}{8}$.—A rise again took place, and now culminated. The harvest of this year was as good as could be desired.

1823. $73\frac{1}{8}$.—An intense mania for speculation followed, and soon brought about ill effects. Foreign loans and foreign goods were alike speculated in too much, and the demand for money which ensued caused a heavy fall in the prices of those commodities which had been imported, the owners of them suffered corresponding loss, and the stock markets were once more depressed.

1825. $93\frac{7}{8}$.—Trade had regained full swing. There was for the time a mania for investment, and all securities rose in price.

1826. $77\frac{1}{8}$.—Failures among importers had announced the beginning of an unprecedented collapse of trade and credit. The Bank of England was nearly drained of bullion, and its circulation was so much increased by the failures of other banks that cash payments were in danger of being suspended. No faith was placed in any form of circulating medium except bank-notes and coin. Thus, prices of all commodities and securities fell owing to the scarcity of money, or what had previously served the purposes of money, to pay for them.

1827. $86\frac{5}{8}$.—The panic state was soon over after the first crash, and credit recovered though trade was still dull.

1830. $91\frac{3}{8}$.—A return of gold from abroad caused this rise.

1831. $77\frac{1}{4}$.—Wheat was dear, and there was a further absorption of money to supply foreign demands.. There were at the time revolutions in France and Belgium,

besides a war between Russia and Poland to account for these needs.

1835. 91⅛.—Successive abundant harvests brought about this rise in a large degree.

1837. 89⅝—Cheap food had given great impetus to the production of commodities, among which the demand for iron for American railways was conspicuous. The immediate causes of the catastrophe of this year were the failures in America, with which exporters here were much involved, and also an export of gold invested abroad, besides an internal drain, which contributed to make money dear.

1838. 94.—The effects of these circumstances on Consols were soon neutralised by the reaction consequent on over-speculation and loss in foreign loans; much investing in Consols for the safety they afforded brought up the price; bullion accumulated in the Bank for the sake of safety also.

1841. 88½.—The prostration of trade continued, aggravated by dear food. The savings of the country were thus absorbed and money was scarce.

1844. 100¾.—The reaction was now great. Confidence reviving, labour was no longer unemployed; food had become cheap through the repeal of the corn laws, and manufacturing trade had gradually extended in activity, helped by the new market which a treaty with China had opened for cotton goods, &c. Credit was so good in this year and money so freely offered that best bills were discounted at as low a rate as 1¾ per cent.

1845. 94½.—The ease with which money was to be obtained had generated speculation to an alarming extent, which principally took the form of new railway projects, and affected Consols by absorbing money which would otherwise have sought investment in the Funds.

1847. 80.—This fall was occasioned by a sudden advance in the value of money. Various causes had been at work to bring about this state of stringency, principal among which was the drain which had continued growing for railway undertakings at home and abroad. Materials for their construction as well as the labour employed on them had risen in price, and the internal circulation was further increased by dearer corn. Failures also occurred, and the money market reached crisis-point.

1850. 97½.—Railway speculation had continued, but certain exposures checked confidence for a time with regard to them. Money savings were consequently diverted into other channels.

1852. 100¾ ex div.—Gold, since the discoveries in California and New South Wales, had become more abundant, and the money market was easy notwithstanding loan requirements by foreign powers and a large demand for coinage in France. Trade had been over-speculative in certain branches; and in the absence of adequate consumptive demand prices fell, and bankruptcies were the result. Credit, however, was not affected in any marked degree, and the influx of new gold kept a continued downward pressure on the rates of interest, and consequently raised the price of all interest-bearing securities as well as commodities.

1854. 86.—The reaction had come. During a long course of cheap money a tendency to embark in extensive speculative undertakings had been fostered and developed. Labour and goods had equally risen in value owing to emigration and large exports, credit had become unsound, and war with Russia was declared. The reaction would have gone further had it not been for the continued demand for our goods in exchange for

the gold produced in the new fields. 1853 had been a year of strikes and consequent waste of labour. In effect, our trade was intensely oppressed—on the one hand, in the difficulties of production by dear raw material, labour, and food; on the other, in the difficulties of distribution, by war, a stoppage of foreign demand for our goods (with the great exception of California), and the failures which resulted. The pressure soon subsided after this point had been attained, the harvest in prospect having a most promising appearance.

1858. 98⅝.—The war with Russia had ceased, and trade resumed great activity. The first symptom of this was a drain of bullion to pay for imports, which caused a crisis-point to be reached by the rates of discount (10 per cent.), but had not affected Consols at all materially. The next swing of the pendulum of commerce brought gold hither in large quantities, and Consols advanced 8 per cent. in as many months.

1859. 88¼.—At this time political considerations caused violent fluctuations owing to rumours and assertions that Russia had coalesced with France in the pending Austro-French war. Many failures and losses were occasioned by the fall in securities, which was general, it being understood that Russia and France intended to overthrow the balance of power in Europe.

1859. 97.—That no cause for the alarm existed soon became apparent, an armistice was signed between France and Austria, no further fears of war were entertained, and securities of all kinds everywhere rose in value. A French commercial treaty then signed had also a good effect.

1861. 89½.—Gold had been leaving England for some time, principally for America, where secession had already commenced and derangements in that country caused a

demand for money. The stoppage of trade there which ensued was unfavourable both as checking our exports of goods and as draining gold from us in their place, thus at once hurting our trade and making money dearer. Foreign loans had also helped to produce the latter effect, and India borrowed heavy sums over and above the silver it absorbed in exchange for cotton. Corn was dear also, following a bad harvest throughout Europe.

1861. 94½.—The rise was due to the better harvest in this country combined with the absence of further excessive drain to America and elsewhere.——For some years after this period there was very little fluctuation in Consols, the average price being about 92. The derangement of the cotton trade caused a block in part of our machinery of production, and this reduced the national gain; the outflow of bullion to the East to pay for the cotton that we were obliged to buy there, caused scarcity of money and had a correspondingly depressing effect on prices. On the other hand, harvests were plentiful about this time, and expenditure was on that account economised, so that the national wealth as represented by the demand for Consols was neither lessened nor added to.

1864. 87½.—A drain to the East of bullion brought up the value of money to the rate of 9 per cent. as the discount minimum. There were no fears of a panic, however, and the best of securities fell in price correspondingly to the rise in money, which latter diverted the channels of investments, and caused sales rather than purchases to be made. Bullion continued scarce for some time after this, owing to the demand for France in addition to that for the East; besides which, international trade was growing enormously and absorbing capital. For these reasons Consols still remained out of favour.

1866. 85⅝.—This was the period when the failure of

Overend, Gurney, and Co. occurred and announced the beginning of a crisis arising from overstrained credit. The Bank rate for discount touched 10 per cent.; and the only form of credit that could be circulated freely being bank-notes, the Bank Act of 1844 had to be suspended in order to increase the supply of necessary agents required for transactions. Money being so much in request, it is easy to be imagined that there was very little to spare for buying Consols.

1868. 95½.—The preceding high rates existing in this country naturally drew hither much money from abroad, and the reaction gradually went to this point. The money market being over-supplied, owing to the quiet state of trade which succeeded the crisis of 1866 and the fall in prices of commodities which accompanied that state of dear money, securities naturally rose; foreign loans, however, came in at the favourable opportunity and took off some of the superfluous capital seeking investment.

1869. 92½.—Money had gradually become dearer since trade began to recover, and the low rates of interest ruling for some time after the panic of 1866 had invited foreign loans to a large extent. Bullion in the Bank of England had consequently been considerably trenched upon, and Consols suffered depreciation.

1870. 94⅜.—National prosperity had continued without break. Corn was plentiful, labour well employed, and as yet no serious fears were felt of a European war.

1870. 89.—The war between France and Germany had broken out, and the fear of this country's becoming involved caused a panic on the Stock Exchange. The disturbance, as usual with such sudden dislocations of commerce, supplemented the demand for money which our increased trade was then occasioning, besides

which a precautionary demand for discount had withdrawn much money from under the immediate control of the Bank of England. The high rates thus induced speedily caused a return of bullion, especially as trade generally was checked by the war, and foreign money was placed here for safety.

1871. $93\frac{5}{8}$.—The Bank of France had discontinued cash payments; London was consequently made the chief gold centre; and notwithstanding our enormously increasing trade as testified by the large bank-note circulation and clearing-house returns, money was stored here in great quantities and pressed down the rates of interest to an extent which heavy foreign loans for a long time failed to counteract.

1871. June 14. $91\frac{1}{2}$ **ex div.**—Anticipations of a poor harvest helped to depress Consols more particularly, while the issue of the French Indemnity loan made all the stock markets flat.

1871. July 12. $93\frac{5}{8}$.—Improving prospects of harvest, money becoming every day more abundant, and the ease with which the French loan was placed, were each a cause for a general rise in the value of securities; and as the Bank rate had now reached the low minimum of 2 per cent., it was urged that the price of Consols relatively was not at its highest. On the other hand, the numerous secure investments which had grown into favour with steady investors, such as railway debentures, competed successfully with Government securities, especially as the former yielded higher rates of interest.

1871. Oct. 18. **93.**—The rise (that had taken place on the weeks immediately preceding this date) was remarkable because of the advance in the Bank rate (from 4 to 5) which took place at the same time. The

dividend payments caused this anomaly by flooding the markets with much loose capital, notwithstanding the drain upon the Bank's stores which had for some time been occasioned by the German demand for gold for its new coinage.

1872. Jan. 10. 92⅛ ex div.—Dividends were distributed and Consols were benefited; other securities, however, had been for the past year much more than usually in request, as the public confidence in the more miscellaneous investments was regaining ground in the same degree that the effects of the 1866 panic were gradually being recovered from.

1872. Feb. 8. 91½.—The Alabama difficulty caused some uncertainty, and Consols suffered on this account as well as by speculative sales which were made to cover operations for the rise in other directions. The Revenue payments had increased the Bank's store of public money at the expense of the private deposits in the Bank of England; thus money was scarce in the open market, while there had also been some drain for abroad.

1872. April 24. 93¼.—The reaction from the above conditions was shown in the tendency to speculate for a rise fostered by the less uneasy state of politics.

May 8. 93.—Uncertainties as to the movements of the German Government with reference to its demand for coinage were increased by the sudden withdrawal of bullion for that country, and a sharp rise which immediately ensued in the Bank rate.

July 3. 92¾ ex. div.—For the time this uneasy feeling had subsided. The rise in the Bank rate last mentioned had been sufficient to attract money to the London market corresponding and even more than adequate to its wants; prices of securities had consequently risen.

The final settlement of the Alabama difficulty relieved the last traces of the anxiety.

Aug. 7. 92$\frac{3}{8}$.—The fall to this point was temporary, and merely showed reaction after the excitement which subscription to the French loan had caused. The remarkable feature of that subscription was, that not only did the loan itself improve in value, but the general and eager application for allotment also stimulated other share markets, by revealing an immense dormant demand far more than competent to absorb the loan. At this date, however, Germany had taken advantage of the existing abundance of money to make further purchases of gold.

Aug. 28. 92$\frac{7}{8}$.—This point was only touched momentarily, but had been led up to by the continuance of ease in the money market, the precautionary rise of the Bank rate in the spring having had little effect up to this time.

Oct. 4. 91$\frac{3}{8}$.—A large increase in the note circulation caused a sudden rise in the Bank rate, which discouraged buying in the stock markets. Consols were affected also by the heavy rates buyers "for the account" were charged for holding over payment for the time; rather than pay these exorbitant rates such buyers became sellers, stocks were pressed for sale, and the market price consequently fell considerably.

Nov. 1. 92$\frac{5}{8}$.—Notwithstanding that a further rise had taken place in the value of money, Consols were wonderfully quick to recover, as during the whole year they had been, in the face of all the disturbing influences. At this time there were to contend against a foreign drain of bullion and a bad harvest, yet the accumulating savings of the country, aided by Government purchases for the reduction of the National Debt, gave great elasticity to the market.

Nov. 13. 92.—The Bank rate had been advanced to 7 per cent.; a further upward movement was expected, and the semi-panic thus caused was increased by the news of a large fire at Boston, U.S., and fears of loss and complication on this side. Consols were sold at a low price for money, as great anxieties were entertained about the coming account. Further Sinking-Fund purchases, however, sustained the market in some degree.

1873. May 28. 94.—Although the Bank rate was 6 per cent,, that high value of money did not deter investors from placing capital in Consols. The chief reason for confidence in them was the more assured tone of foreign politics, but continued purchases by the Commissioners for the Reduction of the National Debt had also much effect in raising the price.

And since this time there have been, less than ever, any but the most moderate variations in the price of Consols, whatever may have been the current value of money at the moment. The absence of warlike rumours has been alleged as the chief cause of this steadiness. They are not a stock which investors hastily buy, nor which there is often occasion to sell rapidly, and the steadier they become the more does steady investment solidify their price. The nation looks upon Consols as a kind of savings bank, and it would need an almost unimaginable disaster to appreciably diminish the immense savings put into them, or to cause withdrawals simultaneously by the millions of investors in the Funds.

1875. Sept. 94.—On news from China which threatened a war, Consols had an unusual fall at the end of September from 94½ to 94; but although our Minister was at the point of returning from Pekin, yet the alarm had no more effect. A war with China would, however, cost the country directly about £20,000,000; and the

country would amongst other securities consequently have less to spare for investment in Consols.

1876. July 19. 97½.—The fall in the value of money, (bills being discounted as low as 1 per cent.) had brought investors and bankers into the Consol market and pushed up the price to this almost unprecedented height.

1876. Oct. 93¾.—The outbreak of war between Turkey and Servia, followed in the next spring by the Russo-Turkish conflict, had aroused fears of an extended European war.

1877. November 97.—Peace appeared assured upon the successes of the Russian troops.

Railway Stocks.

Railway securities form so large a market on the Stock Exchange, the variations in their value are so constant, the amount of money invested in them so large, and the classes into which they may be divided so numerous, that some notice of them is necessary here. Taking the ordinary stocks of some leading lines as a guide, we find that fluctuations are continually taking place, and concurrently for the most part with the prospects of good or bad trade. What the price of such stocks ought to be is almost invariably fixed by the rate of dividend which they return on the capital money invested, although stability of dividend is also a great incentive to purchases, and of late so much confidence has been placed in them by the public that investments take place at prices which must make the return smaller than would have contented buyers of them a few years ago. Railways are as good a barometer as we can obtain to indicate the general condition of business in the country through which

they run; for when trade is brisk the movement of of goods is naturally large; when trade is prosperous and inflated the railways share the prosperity and inflate their charges for traffic; when labour, coal, and other instrumental articles used in trade become expensive, the railways feel at once the increased expense, and soon show it in reduced dividends. A bad harvest here would be felt by the railways of the kingdom through the check which would be imposed on general consumption and trade; but a good one happening at the same time in America would at once cause a great movement of grain from the back States for export hither, and it is found that the chance of such a conjuncture of circumstances immediately raises the price of railway stocks in America. There are causes at work calculated to increase steadily and permanently the revenues of English railways, for population tends always to augment, and the travelling to and from great towns to augment also. On the other hand there is danger of the working cost of the lines occasionally running ahead of their receipts. Fluctuations in dividend, and therefore in the market values of railway stocks are sure, from such causes alone, to be continual; and when we remember the outside causes, such as cheap or dear money, few or many public loans or other competing forms of investment, we may rest assured that the market for railway stocks will always be subject to violent changes. Influences from within and from without will alike be made most of by speculative operators; the rise will be pushed to extreme heights, the fall to exaggerated depths, as has been already done, and as the following table will show to have been the experience of quite recent years:—

Fluctuations in the Value o

Date.	Caledonian.	Great Eastern.	Great Northern, "A."	Great Western.	Brighton.
August 22nd, 1872	116¼	48¾	165½	116¾	74½
February 22nd, 1873	94½	40¼	148	126	77¾
	Prices depressed by disappointing half-yearly reports				
July 18th, 1873	91¼	38½	132½	118½	73½
	Half-yearly reports unfavourable as to working				
August 14th, 1873	98¼	40½	150	125	79¼
November 8th, 1873	92¾	39¾	151¾	118⅜	80¼
	Dear money checked speculative purchases, and led to				
December 27th, 1873	108½	50	169½	129	89½
February 28th, 1874	100½	45xd	162	126	80¾
	Disappointing dividends, although not much below the coal might have caused otherwise.				
March 28th, 1874	96¾	45¾	157xd	125½xd	83¼
	Further depression. Scotch dividends unsatisfactory.				
July 25th, 1874	93	43¾	157½	120	82
	Having approached their worst for the time, prices				
September 26th, 1874	94½	43	161½xd	118xd	87
	A further improvement took place, chiefly on the				
October 31st, 1874	92½xd	40¼	157½	114	90
	The rise in the value of money had checked purchases, lines by an announcement by the Midland Directors				
January 30th, 1875	98¾	41½	157	109½	96½
	The rise in consequence of cheap money had been its neighbours hurtfully. The great strike and lock- Great Western.				
February 27th, 1875	103¼	44½	159½	110¼	97x
	Good actual traffic receipts, further prospective ready to snap up all good securities for investment,				
May 29th, 1875	105½	45½	164½	115	106
	The rise had been continuous; with little break or amalgamation, chiefly affecting the Brighton and				
June 26th, 1875	107¼	46	161 x new stock	113¾	102¾
	So solidly had the advance been established, based as this month had little effect. They originated in the took all support from under the notorious Collie & Co.,				
September 25th, 1875	127¼	51¼	151	118½	118
	The rise apparent has been more than any prospect of their money. The disgust publicly felt for foreign				
Lowest Prices in 1877	112½	44	109⅝	96¼	113½
	These prices on the whole mark a great relapse, which, have occurred almost exclusively in the "heavy" traffic involved in the decline of the iron trade. marvellous manner.				

ritish Railway Stocks.

Chatham and Dover.	London & North Western.	Sheffield.	Metropolitan.	Midland.	North-British.	North-Eastern Consols.	South-Eastern.
25¾	148¼	77⅛	60¼	146¾	75	168½	102
24	148¼	79¾xd	69xd	141¼	63	163½	103xd
of profits and working.							
21⅛	144½	73¼	71½	135¼	62¾	161¼	107
expenses.							
22⅜	150	78	72½	138¼	68	168¼	107
19⅝	146¼	72⅛	63	132⅜	59¼	160	104½
realisations.							
25¼	155½	80½	67¾	139¾	79	176	110½
21¾	148½	74¾xd	64½xd	133½	66¾xnew	173	107xd
last year. Traffic returns fell off and neutralised the improvement which cheapening iron and							
21¾	145¾xd	73¾	65	130¾xd	63½	168xd	110
21⅛	154	71½	63½	129	61¼	169½	111
began to mend, the dividends not coming out so small as had been expected.							
24	153½xd	74¼	66½	135½xd	66	168¼xd	112
assurance from directors that fuel was cheaper and working expenses were kept in check.							
22¾	149¼	72¼	67	133¾	65½	167½	112
speculative as well as for investment. The fall had been increased in the case of all the Midland that they intended to abolish first-class carriages and radically alter the fares.							
23⅝	150	74	79	140	69¼	163¾	115
chiefly evident in the Southern Companies' shares, the measures taken by the Midland affecting out in South Wales had paralysed the iron and coal trades, and diminished the traffic on the							
23½	149¼	80xd	83½xd	142	71¾	170¼xd	117xd
reductions in working expenses on the lines, and, above all, a great accumulation of capital had brought up values further and considerably.							
25¾	147¾	78	86½	145	85	172½	119
exception, values continued to advance for the above reasons, assisted by various rumours of Chatham lines, which was to reduce expenditure.							
23½	148½	74	88¼	144¼	88¾	171¾	119
it was on a real abundance of capital seeking investment, that the heavy commercial failures of iron trade of South Wales, brought down a large discount house (Sanderson's), which in its fall a firm which had lived on its credit and imposed upon every one.							
26½	142½	82	95½	141xd	...	171xd	131
railway prosperity, the result of purchases for investment by those who find no better security for loans had much to do with this movement.							
18½	141½	64½	101½	122¼	86	146¼	120
however, on careful comparison with the extreme high points touched in 1873-74, will be found to lines. The North-Eastern, Sheffield, Great Western, and Caledonian, all suffered from the loss of Passenger lines meanwhile have managed to sustain their revenue and dividends in a							

CHAPTER VI.

LABOUR.

Labour in England—The State of Trade Governs the Demand for Labour —History of Fluctuations—Unions: what they cannot do, and what they should do.

The trade of England, consisting mainly as it does of the manufacture of produce grown in other countries, owes less to the soil than to the working population. Labour is so important a part of production that cheapness cannot be secured in any branch of trade unless labour be cheap. When labour is cheap *and* effective, the effect on our trade is much as if a magician had brought the produce of the earth some degrees nearer to the surface of the earth, or as if our harvests were doubled. If the producing activity of labour, whether hand, head, or machine-labour, is clogged by high wages, the riches of the earth, as it were, sink down to unfathomable depths. Hence labour is a great element in trade, entering into the value of everything we deal in as much as does the money by which the trade is carried on, determining too, to some extent, the market price of goods on which labour has been expended. That labour has a market, like every other commodity, cannot be doubted; that the labour market is not a highly organised one, but very much the reverse, is shown by the frequent strikes, lock-outs, unreasonable demands, and ignorant estimates of the value of labour, which have unsettled universal trade. Labour, when dear—that is, when wages are high —must after a while tend to become cheap, and when cheap must tend to rise in the market.

Labour varies in demand as compared with supply,

as I have attempted to show in a concise table farther on, and it therefore varies in value. The market price of labour, in fact, varies from any point higher than the wages necessary to sustain life; when they fall near to that point migration is forced on the labourer, and he seeks a better market because he cannot obtain a sufficient price for his labour where he was; but wages may rise to a practically unlimited extent corresponding to the demand which active trade may create for labourers. In the market price for labour must be included many things besides mere pounds, shillings, and pence; there are good and bad climates, good and bad companionship, varying shades of comfort, in all ways tending to make a demand for labour effective or ineffective; and these are some of the difficulties in the way of obtaining an organised labour market.

There are few sudden variations in the wages paid in different trades and districts, so that it is some time before the necessity of leaving one market or the inducement to go to another becomes plain, which often allows of inequalities in real wages as well as money price in one district as compared with another. For a long time the agricultural labourers of Suffolk lingered on with an overstocked market and a bare subsistence till at last, in 1874, some migrated, and the rest were able to secure higher wages; son had succeeded father in the fields, and then came the grandson; there was work for them all at a price, but the price sank lower and lower until it became too low to retain the surplus labour in the district. The fall of wages must have worked in a very gradual way, the decreasing cost of manual labour enabling farmers to employ more men on their farms. In time, although machinery took the place of manual labour, yet the

aggregate sums paid for labour on farms were found to have altered little from year to year.

The table which we may now consider shows accurately the general demand for labour year by year since 1859, a low rate of pauperism meaning a high market price for labour. It will be remarked that the rate of pauperism was high in 1864, when distress and reduced trade occurred in Lancashire, and again high in the years of commercial depression which succeeded the crisis of 1866. The value of labour, it is plain, is bound up with the activity or sluggishness of trade, rising high in times of inflation and large profits, and sinking when the reverse is the case. It may be thought that our harvests and the price of wheat would have more than anything to do with the number of paupers relieved, but since trade in wheat has become free, the cost of bread has been so little subject to fluctuation that its direct effect in pauperising or enriching the masses is now less marked than in former times. Indeed, in the case of "adult able-bodied paupers," which we have before us, the comparative cost of bread may be overlooked in so far as it bears on labourers' wages, and although cheap wheat tends to make trade active and dear wheat to slacken trade, yet it is the state of trade rather than the cost of bread that bears directly upon the employment of the labourer. The activity of trade during the several years under review can hardly be better shown than by taking the public revenue from stamp duty in each. It will be seen that immediately after 1863, the year of extreme pauperism, the stamp duty augmented notwithstanding the great remissions of the tax then made. This meant an increase of commercial transactions, larger sums handled, larger profits made, and larger sums left by will; and

pauperism decreased as trade grew, for labour was evidently in demand. In 1867 the public receipts from stamps ceased to grow, trade having become deadened by the failure of Overend, Gurney, and Co., and the ruin of many who depended on their solvency; pauperism accordingly increased in that year. Again, since 1870 the stamp duties yielded an annually increasing revenue, thus testifying to the great prosperity of trade and the accompanying demand for labour until, in 1877, the able-bodied paupers receiving relief in England had dwindled in numbers to the lowest figure on our list, but in 1878 there is a falling off in the stamp revenue, accompanied by that unerring sign of diminished demand for labour—increased pauperism; trade slackened, and the labour market immediately became overstocked. The following table should be read from left to right, and then downwards, column by column :—

Year.	Paupers—adult able-bodied—in England on 1st Jan.	Public revenue from stamps (000's omitted).	Taxes on stamps (000's omitted).		Population of England (000's omitted)
			Taken off.	Imposed.	
1859	137,418	£7,994	—	—	19,686
1860	136,761	8,040	—	£163	19,902
1861	150,526	8,368	—	60	20,119
1862	167,646	8,590	—	24	20,352
1863	253,499	8,976	—	—	20,590
1864	186,750	9,324	£365	—	20,834
1865	170,136	9,542	520	—	21,085
1866	149,203	9,605	—	—	21,342
1867	158,308	9,365	210	—	21,608
1868	185,630	9,475	—	—	21,882
1869	183,162	9,241	1,000	—	22,164
1870	194,089	9,288	321	—	22,457
1871	189,839	8,979	—	—	22,760
1872	153,753	9,739	—	—	23,067
1873	127,697	9,998	—	—	23,356
1874	114,324	10,497	—	—	23,648
1875	115,209	10,547	6	—	23,944
1876	97,065	11,023	—	—	24,244
1877	92,806	11,877	6	—	24,547
1878	97,927	10,031	—	—	24,854

An influence lately bearing on the supply of labour has been the enforcement of laws relating to education and long hours in the mauufacturing districts, from more than one of which came the complaint that skilled labour is very scarce, chiefly owing to the reduced hours and the interference with production caused by factory and school-board legislation. A much larger number of hands were in consequence required—in Birmingham iron factories, for instance—for a given amount of work than was formerly the case.

The following table further indicates how our foreign trade has increased, what the effect of sudden activity of commerce is upon wages, and how temporary is the effect of strikes:—

Year.	Average rate of wages of able seamen at the port of London (trip to Australia).	Tonnage of vessels, with cargoes, cleared from British ports (000's omitted). Tons.	Notes in Parliamentary Report on Merchant Shipping.
1848–59	50/-	—	
1860	50/-	10,783	
1861	50/-	11,320	
1862	50/-	11,710	
1863	52/6	11,888	
1864	50/-	12,173	
1865	50/-	12,827	
1866	60/-	14,010	Strike of seamen this year.
1867	50/-	14,847	
1868	50/-	15,473	
1869	50/-	15,917	
1870	50/-	16,714	
1871	55/-	19,047	
1872	65/-	19,248	General rise of wages in all trades.
1873	67/6	19,139	A very limited supply of men—crews filled up with difficulty.
1874	67/6	19,753	
1875	67/6	20,413	
1876	67/6	21,511	
1877	67/6	21,195	

And here again we see that the state of trade generally influences the labour market, special conditions in a trade having only a minor effect upon wages in that particular trade.

The course of affairs in South Wales is also interesting by reason of the long-continued strike of ironworkers and colliers in 1874. The only apparent effect of that strike has been to reduce wages in the end more speedily than in other districts, the rate being in 1875 as low as in 1869–70. The district has been additionally exposed to great loss of business by the commercial depression in America, whence it derives a large part of the orders for iron which constitute its prosperity. Wages have subsequently fallen perhaps as low as ever in this century, and business for a time became more unprofitable.

1869. *100.—This was a low rate, trade having been in a state of reaction and dulness after the crisis of 1866. Exports of railroad iron had, however, increased from 583,000 in 1868 to 888,000 tons in 1869.

1870. March. 110.—The increased export began to take effect on wages.

1871. March. 105.—The Franco-German war had checked foreign trade for a time.

1871. June. 110.—But at its close a general revival had begun. Exports of pig iron 1,057,000 tons in 1871.

1872. March. 120.—Trade still increased.

1872. Sept. 130.

1872. Dec. 120.—The exports for 1872 had now risen to 1,331,000 tons.

1873. March. 130.

1873. May. 140.—The maximum was now reached.

* 100 is taken as a representative figure, in order to obtain a starting-point.

1874. June. 130.—The crisis in America in the autumn of 1873, essentially a railway-building crisis, bore heavily on the export iron trade of South Wales, but wages were tardy in following the depression, just as they had lagged behind in the upward movement of prices.

1874. August. 120.

1874. Dec. 110.—At last a further reduction became inevitable, but a great strike occurred, neither colliers nor ironworkers being at all able to see the necessity for lower wages which depressed trade brought about. The coal and iron masters, on their side, considered it no part of their business to exhibit their books and show what losses they had incurred, and so convince the men that there really was no market for labour at former prices; the men, on theirs, had no sufficient data of their own to go on, and the result was an unsuccessful strike.

1875. May. 105.—The fall in wages continued to follow the profitless course of business.

1878. 75.—This decline has brought wages to a lower point than was touched in 1869, but whether the men now work so hard for a day's wages as they then did is a different matter. The unions advise them not to work hard, but to keep down production by working eight hours instead of nine.

Taking the iron trade as a guide to the general value of labour, we find that wages in a manufacturing district rise and fall almost invariably with the rise and fall of the market for the manufactures produced by that labour. And, second, we find that wages are not prompt to follow the lead of the prices on which they depend. This we must ascribe to the inability of labourers to detect symptons of improvement or decline in price at

an early stage of a movement of the kind; their best guide to a knowledge of their own market is an acquaintance with the market for the goods they help to produce, and a closer study of the latter would be advantageous to them. The plan has been adopted of making iron-workers' wages dependent on the realised prices of iron, a dependence recognised and adopted in the "sliding-"scale" principle by which the price of iron mechanically rules that of labour. But the rule worked ill, for it excludes many considerations, such as the cost of coal and other materials, which must bear distinctly on the rate of profit which will induce manufacturers to remain in and increase their business, and which therefore affect the demand for labour. The state of trade must govern that demand. Experience appears hardly yet to have taught labourers the truth of this reasoning, or they would pay more attention to the state of trade than they do when seeking a rise or refusing to accept a decrease in wages; on the other hand they sometimes let their best opportunities slip.

Average Prices of all kinds of Iron from 1863 *to* 1875, *also price of Puddling at each period both in North of England and Staffordshire.*

Date.	Average realised price, North of England. £ s. d.	Price of Puddling in North of England.	Price of Puddling in Staffordshire.
1863	7 14 10	7/6 to 9/9	8/6
1864	8 11 7	10/6 to 12/-	10/6
1865	7 15 8	9/6 to 11/-	9/6
1866	7 5 11	1st half 9/6 to 11/-; after strike 9/6 G., 8/6 M., 8/- W.	9/6
1867	6 11 10	March 9/-, 8/-, 7/6; December 8/-, 7/-, 6/6	8/6
1868	6 5 5	8/-, 7-, 6/6	7/6
1869	6 11 3	Up to March 8/- after 8/6	8/6
1870	7 1 9	Jan. 9/6 for all mixtures	8/6
1871 to June 30th	6 16 1	January, 1871, 9/-; October 1871, 9/6	9/6
Nov. 30th, 1871, to 29th February, 1872	7 16 6	9/6 (for new quarter)	10/6
31st May, 1873 to 31st August „	11 19 3½	13/3. „ „	13/3
30th Nov. 1874 to 28th Feb. 1875	8 14 3	9/9 „ „	9/9

After the date 30th June, 1875, the agreement for regulating the wages by the ascertained net selling prices of iron was abandoned, and since then the course of wages in the North of England has been as under:—

Per ton.

On July 15th, 1875, by mutual agreement between the North of England employers and their workmen, a reduction of 5 per cent. was agreed to, to remain in force until the end of the year, and the price of puddling was thus reduced to 9/-

(The average price of iron was then £8. 3s. 1¼d. per ton.)

On January 18th, 1876, Messrs. Mundella and Williams awarded a reduction of 7½ per cent., which brought puddling down to 8/3

(The average net price of iron would be £7. 10s. 4·09d. about this time.)

On April 13th, 1878, Mr. David Dale awarded a reduction of 7½ per cent., and this brought puddling down to 7/6

(Average price about this time would be £6. 7s. 4·01d.)

The employers on October 24th, 1878, gave notice that they claim a reduction of 5 per cent., which, if sanctioned by the arbitrator, would reduce the price of puddling to... ... ... 7/-

(The price for the quarter ending 31st August last was £6. 0s. 5·37d.)

Members of Parliament have said strange things on the subject of labour, and have rested a kind of popularity on the assumption that labour is not something to be bought and sold in a market. This assumption is well received by the masses, who regard it as imparting a dignity to them as a class which they could not otherwise attain to; but it is in reality the very opposite, for it would take away from the owners of labour the duty of using their intelligence in seeking the best market—it would degrade them to the level of machines which it

was their employers' duty to keep well oiled and cared for. Mr. Burt, "the working collier M.P.," makes speeches after this manner:

" Whatever else," he says, " working men might not " have learnt, whatever else they might be ignorant of " —and, unfortunately, they were ignorant of a good " many things which they might with advantage know " —they had learnt by hard-bought experience that they " could not do without union. Disunion always meant " low wages, long hours of labour, and the want of " proper regulations between man and man. Union, " however powerful it might be, could not in every case " prevent a reduction in wages; but what it could do " was to mitigate that reduction to the utmost possible " extent. Working men had been told again and " again that their *labour was a mere commodity*. Let " them accept the position. They did not believe that " labour was a commodity, but if it was maintained that " it was, then they said, 'Very well, we are the sellers of " 'it, and the seller is at any rate as good as the buyer.' " It is not for you to come to us and say that you will " have our labour at your own price. We are a party to " the bargain, and we shall not be ignored and treated " as though we were mere ciphers; but we shall demand " to have a voice, an emphatic voice, in the price at " which we shall sell this commodity, as you call it, and " upon which our bread depends."

Further, this kind of argument seems to be at the root of most of the disorganisation which really exists in the labour market, notwithstanding the apparently systematic manner in which working men combine. And, after all, what do they combine for? What do they obtain by combining? Merely "a voice," as Mr. Burt says. Working men are to assert themselves,

to show that they are not mere ciphers, to sell their commodity at the best price; and they finish in "voice." Working men are at a disadvantage because they are not business men. Numerous are the failures of co-operative companies in which the wages of labour and the profits of trade combined have been sought by the co-operators; but though they have shown themselves to be good labourers, they have been bad speculators. They should study their own market as in every other trade the market is studied by those who hope to succeed in selling to the best advantage.

In the case of the Co-operative Mining Company the directors reported that the output of the colliery was such as the committee was never led to anticipate. This, with the increased cost of production and the unsatisfactory state in which the society found the colliery "occasioned the loss shown in their balance-"sheet." The directors also gave out that this disastrous result "had arisen from circumstances over which they "had no control." But it was pointed out that the only circumstance, uncontrollable or otherwise, which they clearly mentioned, was that they had been misled by the vendors. To make a bad bargain through ignorance or carelessness could not therefore be rationally classed as a transaction uncontrollable by those who enter into it.

And in another case, that of the Ousebourn Engine Works, the co-operators appeared to be quite insensible to the most elementary principles of business, the fact coming out that even when the company was entering on a losing trade the workmen demanded an advance of wages. The demand was virtually made upon themselves as shareholders, and there was nothing to prevent them paying in wages money out of their capital which had not been earned.

Labourers of all sorts are not so well contented with their unions as they have been, and this is natural. When labour rose in value, as it did most rapidly in 1872, the unions were the *vehicle* for exacting increased wages, and the vehicle became confounded with the motive power. In other words, the cart was put before the horse. Those who had labour to sell in the best market thought that the unions provided that best market, and to some extent they did; but now, when all labour markets are bad instead of better, there is naturally the same inclination to confound the unions with the state of the labour markets, and to regard the unions as the cause of a bad price for labour just as they were formerly regarded as the cause of a good price for it.

Now is the time, then, to point out the defects of unions, and, if possible, to show how those defects may be remedied for the increased benefit of their members.

Always looking at labour organisations from the view taken by those who organise, examine the apparent effects of combinations in the year most favourable to them which has ever been witnessed, viz., 1872. A record of that year includes a most heterogeneous mass of trade difficulties resulting from the increased demand for labour; but what do we always find to be characteristic of those difficulties? Always violent collisions with capital; strikes; lock-outs; in short, suspension of labour, idleness of capital, waste of energy, loss of interest. At New York an intermittent strike, lasting two months, was instanced at the time as participated in by sixty thousand men, who lost amongst them in wages alone $2,000,000 or thereabouts before they could come to terms. Could not the same end have been attained quite as effectually and more economically,

even if with less dramatic effect, by quieter means? Then the workmen said, No. Their love of unionism was a passion fed by the apparent efficacy of determined combination. They had only to unite; nay, the very terror inspired by the threat of union sometimes spared them even that trouble, and they obtained immensely advanced wages. It cannot be wondered at that there should have been a fondness for displaying the new power when its display was so advantageous as well as agreeable. How different a ground the unions now stand on needs hardly to be exhibited; the results of a strike are not speedy victory and high wages for the strikers, but rather starvation now, lower pay to come, and comparative demoralisation after the high hopes of three years ago. Then the ironworkers of the North of England, the agricultural labourers of the South, the clerks of London, the colliers of Belgium, the barbers of New York, even the washerwomen of various places, combined together and insisted successfully on a higher rate of remuneration; at the same time the builders and masons of Turin, as well as the builders of London, struck work, mostly for the common object of obtaining higher wages, or else shorter hours of labour. The success attending all these movements seemed to show that nothing but combination was at any time necessary to keep up the price of labour, but on looking back at the widely spread, the unanimous and overwhelming demand for labour of all sorts and in all countries which sprang up at the time alluded to, it becomes plain that that demand was at the bottom of the whole power which forced up wages. Combination, it now seems reasonable to suppose, enabled those who combined to take immediate advantage of a market demand. The effect of combinations was striking to the public eye,

and their marked success distracted attention from the underlying force of demand which had to exist before it could be taken advantage of.

But these combinations, at their best, were clumsy expedients, and as managed up to the present time leave much to be desired. Socially, they give the whole labouring class the theatrical dignity which is necessary to every class with political aspirations, from royalty downwards; but commercially—and it is only the commercial value of combinations we are now considering—they are not perfect. Let it be remembered that labour is an article to be taken to market and sold as if it were a pig or a quarter of wheat, and let the owner of that labour see what goes on in the cattle or corn market. First, say, the seller makes an offer of his pig, but the price is too high and the buyer, so to speak, strikes. Secondly, it may be that a buyer comes to the owner of the pig and proposes to give him a certain price for it, but the owner of the pig thinks that he can get a better price for it from somebody else, and he in his turn refuses, or, in other words, he strikes. But the proprietor of the pig does not withdraw his animal entirely from the market, *but seeks a better customer* with more or less success. His judgment may have misled him, and he is forced to take the original price offered. There is seldom any objection on either side to come to terms as ruled by the market for wheat or pigs, but when labourers refuse a price they do it clumsily, and for a long time remain on strike in a horror of coming to terms. There is a personal feeling when a man sells his labour which makes it appear degrading to take less than his own price for it, but there is little of such feeling in the matter of selling his goods. The feeling is in all cases opposed to expediency,

and it is not plain that anything can be said for it even on the score of principle. A strike in some form comes off in every market, but it is only in the labour market that buyer and seller stare one another blankly in the face without seeking more convenient terms elsewhere. A hatter who labels his hats 15/6 soon reduces the price to 15/- if he finds that there are no customers at the higher charge. The labourer should be as prompt to act, and not keep his labour in the window without attracting a customer.

What the labourer wants done for him, and what trades unions can do for him, is to have put before him a good view of his market. He fights with employers in most cases quite in the dark as to the real demand for his labour, and the real value of it; he seldom knows or thinks about what is the price he can obtain in other markets, and yet that is what he ought to know before refusing the price he can obtain in his own. In the money markets a system of arbitration prevails which smooths down to a common level all irregularities existing between various centres. For instance, if money can be lent at 5 per cent. interest in Paris, and only at 3 per cent. in London, it tends to go to Paris and to leave London, and so the rates find a proper level; again, if a railway stock can be bought at 80 in London, and 79½ in Manchester, there is a tendency to buy in Manchester and sell in London, and prices immediately assimilate in the two places. This goes to show that the money markets are so highly organised that the right price is immediately found by comparison, or rather "arbitration," as it is called by financiers, so easy, and apparently spontaneous, is the movement that the ebb and flow of money, corresponding to the requirements on each side of the Channel, lead to no accumulation on

the heavy side of the scale on the contrary, money immediately goes to the side where there is more room for it.

Why, then, should not labour also quit a bad market and seek a good one? why should not the labourer turn the scale by migration, by placing his labour on a market which needs it, and so lightening the weight on that which he has left? The answer is partly, of course, a sentimental objection to leaving certain neighbourhoods or employments, but in a commercial sense is "ignorance, pure ignorance," on the part of the sellers of labour. If their unions are to be of real use to them, and not a curse to the whole community, they must perform the service of finding out the best markets, and supplying the information to their members, so that labour may seek the spot where it is wanted, and lighten the surplus on the market it leaves. One of the most practical steps in the direction of equalising agricultural wages ever taken was that of sending delegates to our Colonies in order to discover and report on the comparative value of labour, and the advantages to be gained by seeking foreign markets. It is the business of a labourer to seek a good market for the labour he has to sell, as much as it is the business of a tradesman to open his shop in a good neighbourhood.

As a business matter, then, there is room for the unions to perform the service of sending labour to the best market instead of attempting to make a market out of nothing. Let them meet the best buyers of the labour they can bring forward, rather than haggle with bad buyers for a price the latter will not give. Migration or emigration generally succeeds an unsuccessful strike, and has always been a great element in making a demand for increased wages effectual. Migration is

to labour what the arbitration of prices is to well-organised markets, and a study of such markets could hardly fail to impress upon those who have labour to sell that their best resource is not pitched battles, or even outside mediation; it is a spontaneous, business-like consideration of market values and market demand, which in short terms might be called Self-Arbitration.

CHAPTER VII.

MANUFACTURES.

The meaning of the term "state of trade" in England—Trade cycles—Fluctuations in prices.

Much mention has already been made here of the state of trade generally. On analysing that rather vague term it will be found to mean the degree of activity or depression in our manufacturing districts, for England's trade is chiefly a manufacturing one. We bring in raw produce from all parts of the earth, we work it up for our own use, and also re-export it in the form of manufactures to almost every nook and corner accessible by sea or land. It would be wearisome, because inefficiently done, to lay down laws for the fluctuations in the market price of manufactured goods; it would require minute investigations into the cost of special materials, into changing fashions, and into details of manufacture. I cannot here attempt to trace the course of such undercurrents, but it can be shown that here is a broad swing in prices which seems to belong to them naturally, and there are various great accidents, such as war, famine, discredit, &c., to which the market values of our manufactures respond.

There are waves in price in a normal state of trade; with singular unanimity prices go up in all our markets, and their fall is as unanimous and more striking. The term inflation pictures better than any other the nature of these general upward movements, for prices become

gradually blown out to unnatural dimensions, only to shrink and shrivel when the unsubstantial trade bubbles burst. There is nearly always a speculative fermentation going on in trade which causes the inflation of prices; manufactures are bought at one price with a view of selling them at a higher, and when prices once begin to rise this speculative market-dabbling leads to a further and further inflation. The market demand will at such times bear little reference to the actual dimensions of consumptive demand, and has no limit until some so-called accident occurs; for instance, sellers of pig iron suddenly find their customers unable to pay, discredit grows, the circle of buyers becomes reduced, demand is contracted, and prices fall; a shipper of cotton goods finds the foreign country to which he is sending them in a state of warfare, perhaps of discredit, perhaps plague or famine-stricken, and prices will fall in the same way,

These "accidents" will spread, too, from market to market, discredit in one section of trade soon contaminating others. The sensitiveness of the money market is such that borrowing becomes difficult or impossible when a breath of suspicion taints, as it does, first individuals, and then whole markets and trades, and then flies from trade to trade. Discredit, as we have just seen, will check demand of the speculative "dealing" nature, and cannot fail to cramp to some extent legitimate trade based on supply and consumption. It is found that, after a period of good credit, easy borrowing and careless lending, much dealing of an illegitimate character has been fostered; and it is after such a period that reaction and collapse are most violent, for some great accident is sure to occur to remove or demolish the purchasing power of a market. The following figures

will show that there have lately been culminating periods, notably 1866 and 1873, after which prices suddenly fall instead of continuing to rise; they will show that the swing of prices is a more potent influence than any war by which peace and commerce are likely to be disturbed; they will point the theory of waves of inflation and depression much better than any argument; and they will prove the existence of a market demand quite separate from a consumptive demand, the former, as we have seen, being liable to an occasional violent check which pulls down prices to a low level. This last is just what I have endeavoured to point out in case of the better organised stock markets, and the separation of the two kinds of demand can be applied to almost any market in which continual dealings take place.

Average Price of Articles exported at the following periods. [Calculated from the Tables of the Board of Trade.]

Year.	Wheat per qr.	Coals per ton.	Cotton yarns per lb.	Cotton goods per yd.	Linen goods per yd.	Pig iron per ton.	Railroad iron per ton.	Tin plates per cwt.	Woollen yarn per lb.	Worsted stuffs per yard.
	£ s. d.	£ s. d.	s. d.	d.	d.	£ s. d.	£ s. d.	£ s. d.	s. d.	s. d.
1855	3 14 8	0 9 9¾	0 10¼	3¼	8¼	3 13 6	8 11 0	...	1 11¾	0 9¼
1857	2 16 4	0 9 6¼	0 11¾	3⅝	7¾	3 16 3	8 14 9	...	2 4½	0 10¼
	The year 1857 was a culminating point in the general rise in prices.									
1858	2 4 2	0 9 3¾	0 11¼	3¼	8	2 19 9	8 4 6	...	2 5½	0 10¼
1859	2 3 9	0 9 4	0 11¾	3⅝	8	2 17 9	7 12 3	...	2 8½	0 11
	Trade began to resume activity, cheap wheat increasing the consumptive demand for goods, notwithstanding the Franco-Austrian war.									
1860	2 13 3	0 9 0½	1 0	3⅝	8	2 16 9	7 10 3	...	2 9¼	0 11¼
1861	2 15 4	0 9 2	1 0½	3½	7¾	2 13 9	7 14 0	...	2 7¾	1 0
	Civil war broke out in America without exercising much influence on trade or prices on the whole for a time.									
1864	2 0 2	0 9 5¼	2 4¾	6¼	9¼	3 0 6	8 2 0	1 5 3	3 4¾	1 1
	The American Civil War continued, but a steady tendency to inflation in other quarters took its course uninterruptedly.									
1866	2 9 11	0 10 3	1 11½	5½	8¾	3 1 6	8 8 0	1 6 9	3 5½	1 2
	Prices had again reached a climax. The cessation of war in America, in 1865, had probably added to the inflation.									
1867	3 4 5	0 10 4¼	1 9	4½	8¼	2 18 3	8 7 6	1 6 0	3 1¼	1 2½
	The failure of Overend, Gurney, and Co. had spread wide discredit and checked the over-inflation of prices.									
1868	3 3 9	0 9 10½	1 8¼	4¼	8	2 17 3	7 19 9	1 3 9	2 10¾	1 1¾
1869	2 8 2	0 9 6¾	1 8	4¼	7¼	2 17 9	8 2 6	1 3 9	3 0¼	1 2½
	This period was one of the ever-recurring depression which succeeds a climax in prices.									
				plain	plain					
1870	2 6 10	0 9 8	1 7	3·55	7·15	2 19 3	8 5 9	1 3 9	2 9¾	1 3
1873	2 18 8	1 1 0	1 5⅞	3·45	7	6 4 3	13 5 0	1 12 9	3 1¼	1 0⅛
	A culminating point was again reached, the Franco-German war having come and gone without much effect on the course of prices.									
Sept., 1878	2 4 0	0 9 4	1 1	3·13	7·50	2 12 3	7 12 6	0 17 0	2 6	0 10
	From 1873 to 1878 there had been an almost uninterrupted fall in prices.									

During this last period prices have remained long in the falling condition indicative of the absence of any but that steady trading on the basis of a "consumptive "demand" which happily nearly always goes on with little of what is called speculation, the meaning of that term being the market-dabbling which, as we have already seen, leads to undue and temporary inflation of prices. The decline of prices shows, in fact, that there is an absence of such dabbling because there is little or no field for it when nothing is to be got by buying and holding goods. The continued and exceptional decline in coal and iron has no doubt gone farthest because of the greater inflation which in the first instance occurred in those branches of industry. For the rest there is no doubt that cheap wheat must have much to do with bringing the general fall of prices to a check, because of the real increased consumption which, *cæteris paribus*, must result from a smaller outlay on primary necessaries by the mass of the nation.

In the years of great reaction succeeding the fever of activity in business which raged during 1872–3 there was one predominant feature in all markets, viz., caution. Failures continued to occur, mainly because of the universal disinclination to lend money. As already noticed, Turkey repudiated her debt-interest, the cause being her inability to raise fresh money, and the repudiation added to the prevailing distrust of inferior securities; in the money markets bad lending business came to light in addition to the Collie scandals and the great crash resulting from over-lending to railroad contractors in America; even to Russia the reaction extended, the failure of Dr. Strousberg bringing into life the fear of a good deal of trouble. Russia had been the scene of a large creation of new banks and of hasty rail-

M 2

way construction, and, in addition to other misfortunes, a bad harvest in Southern Russia had no doubt intensified the scarcity of capital and stopped trade, the inferior kinds of business being the first to suffer. At the time of this reaction it was noticed that "the caution "which characterises business generally, and which is "not at all inconsistent with a very steady supply and "demand trade, is apparent throughout the stock markets "by the great dislike now felt by all kinds of purchasers "for inferior securities, just as in Manchester, for in"stance, there is a poor market for inferior goods, while "the best makers are deeply under contract at very "profitable prices to the producer." In America, also, the same feature was noticed in the iron trade, for during the year 1875 the best furnaces in the country were running whilst the poorest stood idle; and from motives of forced economy, and by reason of increased skill, the management of most of the furnaces in blast was such as to produce the largest and best yield. This feature was no doubt but what was to be expected during a time of reaction in trade of all kinds through which we were passing. In 1871–72 the exact reverse was experienced. So great was then the demand for goods, manufactured or raw, for securities of any kind which could be the subject of traffic, that few stopped to inquire closely as to the solidity of what they were buying. Credit was then good, faith in the value of everything was high; it was not the time for testing and consuming, but one for buying and selling and making profits. The reaction had come, and we now found ourselves weeding out bad articles from good, discriminating and rejecting on the one side, and unfortunately paying very dear for what we did invest in on the other.

Given that prices fluctuate with "solidarity" from cycle to cycle, it is possible to obtain an idea of the extent of the fluctuation by noting the average rise and decline in prices. Professor Jevons has done so by selecting the wholesale market prices of a group of important articles, giving each article its proper rank, his object having been to ascertain the relation of gold to commodities at different periods.

In a supplement to the *Statist* of June 8th, 1878, appeared an article, signed by the present writer, on "The Money Value of Food and Raw Materials," of which the following is a summary :—

We propose to put ourselves in the position of an English manufacturer, and to look at the changes in prices which have occurred during the past twenty years from his point of view. Acknowledging for present purposes that we are a "nation of "shopkeepers," that neat satire will help us to understand the position of the manufacturing classes, and we may, without risk of mental confusion, make out an account to John Bull and Co., manufacturers, showing the prices which the firm has had to pay at different times in the carrying on of its business. We now know what the purchasing power of money, in relation to articles imported and produced, has been at different times during the past twenty years, and we can state the facts quite briefly, thus :—

To obtain a fixed quantity of goods, the British manufacturer would, on the average, have had to give—

In 1859	£91·570,
In 1869	100·000,
In 1873	115·060,
In 1876	96·610,
And in 1878	98·555,

in order to carry on his business and feed his operatives.

We may usefully proceed to examine what fluctuations in each group have been, and whether more apparent in the

Food group or in the material group, the result being as follows :—

	Relative Cost in				
	1859.	1869. Standard.	1873.	1876.	1878. First quarter.
Foods	49·780	53·000	60·230	56·010	60·630
Materials	41·790	47·000	54·830	40·500	37·925
Aggregate, as above	91·570	100·000	115·060	96·610	98·555

The distinction is very marked; the price of foods has continued almost uninterruptedly to advance, the variations having been :

as 49·780 in 1859
is to 53·000 in 1869
and to 60·230 in 1873
and to 56·010 in 1876
and to 60·630 in 1878

but in the cost of materials there is no such sustained increase; on the contrary, there was a great rise up to 1873, but a still greater relapse thenceforward up to the present. The aggregate cost of materials imported and produced was :

as 41·790 in 1859
is to 47·000 in 1869
and to 54·830 in 1873
and to 40·500 in 1876
and now to 37·925 in 1878

—the last aggregate showing prices of materials to have got down to the lowest of all.

Massing together the results of each section—1st food, and 2nd materials—we arrive at a definite conclusion, which it concerns all mercantile men to remember. As population has increased in our cities, the tendency has been for the prices of *perishable* articles of food to augment; for those articles, on the contrary, which can be brought from a distance without risk of deterioration, the supply has at last outrun the demand, but the race has been long continued. What we want *immediately*

tends to rise in price; but there is apparently no limit but that of time to the world's capacity of supplying the wants of its constantly augmenting human population. If we can only wait we can rely upon obtaining what we want from some quarter of the globe; it is the suddenness of a demand for non-perishable articles which raises their price *for a time*; it is the delay and distance which tends *permanently* to raise the price of perishable food.

But although the prices of various kinds of commodities may tend permanently upwards, others downwards, yet, as we have shown, there are great waves of prices which alternately lift and depress the markets for foods amongst all other articles; these waves affect the labour markets, the money market, the stock market; there is no escape from them; there is no trade exempt from the effects of these waves; "there is a tide in the affairs of "men."

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